# Review of International Co-operation

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# Editorial

It is a pleasure to introduce this new issue of the Review. Although it focuses on research, with a generous selection of ICA Research Committee conference papers, it also includes the presentations made at the ICA General Assembly in Seoul, Korea, by the Panel of Co-operative Thinkers. In combining these two perspectives – from the practitioners and the researchers – we underline once again the need to link research to the actions that co-operatives and the ICA take in the future.

Discussing the theme 'Co-operation and peace in the era of globalisation', the panellists highlight areas where co-operatives will need to focus in order to continue to effectively address the needs of their members. They make the point that globalisation provides us with opportunities to share experience on how to address the challenges of competition and how important the sharing of knowledge and thinking on co-operative matters is essential in today's globalised world. Co-operatives must focus on becoming efficient and effective enterprises, capitalising on their co-operative difference to contribute to their success.

In an inspiring case study from Singapore, Tan Kin Lian argues that the 'co-operative brand' has been a powerful marketing tool in providing competitive local alternatives to global companies, and he points to actions taken in his country that might well assist co-operatives in other parts of the world. As Pauline Green from the UK writes in another contribution, 'we have learned a great deal from our sister organisations in other countries as we have sought to reinvigorate ourselves'. That statement says much about the contribution ICA can make by providing the appropriate forums at regional and global levels for sharing and learning. However, it also makes the point that it is up to all of us to be receptive to new ideas and different ways of thinking.

The panellists' section of the Review also includes valuable and thought-provoking contributions from Dr. Marie Randriamamonjy on the converging interests and goals of the United Nations Food and Agriculture Organisation and the ICA, particularly

in the spheres of gender equality and the empowerment of women; Jürgen Schwettmann, from the International Labour Organisation, highlights the worldwide concern about the impact of globalisation on employment and sees the challenge not 'just' of creating more jobs, but of creating decent employment for everyone; and Teo Say Hong, the representative from the Youth Seminar in Seoul, who reminds us that the younger generation should never be ignored in ensuring the continuity of co-operative values and principles.

It is difficult not to agree with Teo Say Hong's view that unless succession planning with a fresh young leadership takes place sooner rather than later, the co-operative movement 'will be left with a gap that will be all the more difficult to bridge in the future'.

The selection of research papers draws on three research conferences from two excellent regional meetings as well an outstanding global meeting. The European research network, through the kind assistance of Maria Fregidou-Malama and Yohanan Stryjan, met in June, 2001 at the European Conference on the Social Economy in Gavle, Sweden. This was followed by the second conference of the Latin American Research Committee in Buenos Aires, Argentina in September, thanks to the considerable efforts of Mirta Vuotto. And the Global Research Conference was held, with the help of the Asia-Pacific network (particularly Akira Kurimoto and ICA ROAP) in Seoul in October. This has meant that again we have been faced with over 100 papers from which to choose, needless to say having to choose was very difficult and many good papers had to be omitted for reasons of space.

Although there is considerable diversity in the co-operative movements worldwide, and this is reflected in the papers here, there are also some common themes. Globalisation and deregulation both bring increased competition, and particularly for the traditional sectors (banking, agriculture, consumers co-ops). The challenge is how to respond to these pressures, how to gain economies of scale and scope, and how to be innovative in rapidly changing markets.

On the other hand there are clear opportunities in newer sectors. This was seen in particular at the Gavle meeting., The growth of the new social economy and social enterprise has been in the changing sectors of welfare provision and work integration, amongst others. Increasingly we are seeing new markets for the provision of '"public services'", where co-operatives are competing against private business and non-profits for state contracts.

Similarly in some countries some co-operative sectors, like credit unions, are growing well. So in both the new and traditional sectors there are lessons to be learned about what works and what doesn't, and how effective innovations are; this is the role of the research conferences –- to reflect and assess trends, and distil the lessons of different global experiences. Of course lessons are to be carefully considered for relevance, adapted to local circumstances, and used as an inspiration for innovation and success.

It is to be hoped that through our global and regional conferences we continue to bring together researchers and members, directors and managers, so that fruitful dialogues take place, and continuing relationships can become established to ensure the relevance of research for generating co-operative advantage – since such relationships are becoming more and more vital in knowledge-based economies.

The papers were chosen to reflect sectors, regions and topical issues with the help of ICA Research Committee Chair Akira Kurimoto (Japan) and the Chair of the Latin America Research Network, Mirta Vuotto (Argentina).

We begin with a paper that addresses one of the challenges for organisations of all types – governance. Chris Cornforth has spent many years studying governance issues, and has just produced a book on the subject. This paper identifies different tensions that boards face when negotiating their relationship with managers, members and other stakeholders, and suggests some ways of managing the tensions. The issue of good governance and reporting in the corporate sector has crashed onto the front pages of the financial press –- this ought to be an area where co-operatives set the standards!

The next, by Junki Kim, addresses an under-researched issue for co-operatives – how to manage relationships with the state. Many conventional businesses often secure important concessions from the state, in terms of subsidies for investment or tax breaks, or other forms of business support, and this doesn't seem to involve a sacrifice of independence. This is not always the case with co-operatives. This paper argues that it is possible to develop a more productive relationship based on recognising and valuing the essential characteristics of co-operatives.

We then turn to a different area of relations with the state, but this time a contractual one for the delivery of '"public services'", like health care or social care. J.P.Girard reviews the recent experience in Québec, Canada, of health and social care co-operatives with three types of members: users, workers and multi-stakeholders. He concludes on the basis of preliminary evidence that the co-operative characteristics of social cohesion and self governance can provide creative and innovative solutions.

An interesting contrast with Japanese health and social care co-operatives is provided by Kurimoto. Over the last 10 years, these mainly user based co-operatives have doubled their membership to just over 2 million. They also provide a high degree of user-member participation in the care process, which is strengthened by a charter of patients rights.

The paper by Hans Westlund is concerned with analysing the nature of the recent growth of employment in the social economy in Europe. In Sweden between 1985 and 1999, 10,000 jobs appeared in the new co-operative sector, however this growth did not compensate for the declines in the traditional social economy. Westlund examines what this means for labour market policy, suggesting that the new social economy has a small part to play

alongside other policies. Its strength lies with serving certain disadvantaged groups, for building on local/ community initiatives and in generating social capital.

In the next paper Madane draws on his wealth of experience to explore some of the challenges faced by co-operatives in many countries where they are over-regulated and are struggling to retain their spirit and identity. He identifies three quite different strategies which help to address these issues – deregulation where he sees considerable benefit in the release from the reins of government; promoting informal and self-help groups; and use of some types of corporate forms (such as wholly owned subsidiaries) to gain business freedoms.

In the paper by Marti et al, co-operative culture and how it changes (or needs to change) in an increasingly competitive environment is examined. The co-operatives studied are Spanish, in Andalusia, producing olive oil, but similar ideas apply to many types of co-operative in many different contexts. The paper develops an interesting approach, critically exploring co-operative culture through the seven co-operative principles and examining how these are interpreted. The authors' approach echoes calls made by many co-operators for increased use of audits of co-operative performance based on the principles.

The Research Committee has gradually developed networks and strategies for improving the dissemination of research findings. Besides the selected "best" papers for this RIC special issue, it managed to channel good papers to journals in the field. The editors of these journals frequently take part in the Committee's conferences and they have shown a clear interest in taking papers from these conferences. We are very pleased with these relationships, and hope they can be continued, since it is essential that our research become more and more widely read.

The Committee holds global research meetings every other year, and we try to stimulate regional research activities and meetings every year. In 2003 two regional meetings will be held – in January the Asia Pacific Research Conference is planned to be held in the Philippines; while a European workshop is scheduled for Bulgaria. But the Committee we will also have a great opportunity to build on a major Canadian research initiative led by Prof. Ian MacPherson – so a global research conference in Victoria, Canada in 2003 is also planned. Farther ahead, a European Research Conference is planned for May 2004 in Valencia, Spain, a country with some fascinating co-operative experience and excellent research. We hope to see you there!

Finally we would like to thank all the people who worked so hard for the conferences and this special issue. The meetings were excellent with good papers and a friendly atmosphere. Clearly the participants played an important part in this, but we owe a particular debt of gratitude to the organisers mentioned above. In some of the research conferences we were able to get some sponsorship, so we

are also grateful to these sponsors – the benefits were making the events more pleasurable and more economical. Finally we would like to thank regular stalwarts: Angela Walters at Co-ops Research Unit, Open University; and Patricia Sullivan at the ICA Geneva, who helped put this issue together.

We hope you find this special issue, interesting, enjoyable and rewarding!

**Roger Spear**
ICA Research Committee

And

**Maria Elena Chávez**
Deputy Director-General/
Acting Director-General

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**P.S. More information on future conferences can be found on its web page:**

**http://www.coop.org/ica/ica/sb/research.html**

# The Co-operative Way towards a New Equilibrium

**by Pauline Green***

The world today is light years away from the world inhabited by the early pioneers of our co-operative world. Co-operation was conceived and developed in a local context to solve local problems for local people. Its international perspective, which we celebrate here, came on the back of its appeal and attraction in dealing with the problems that beset ordinary people in their daily lives. It was hugely successful because it gave people a sense of control over their own and their family's destiny.

In its inception it operated most successfully, as we all know, in an environment ripe for change, and in some cases in the midst of change, an environment generally rife with inequality, injustice and discrimination. Its strength was that it was a practical, value-driven philosophy based on solidarity, democracy and equality that could make a real and immediate difference to people's life.

It succeeded because it developed a cadre of leaders who led their communities, through self-help, to value and seek education as a means of bettering their lot, and to encourage

a sense of responsibility for neighbour and neighbourhood. In essence, co-operation provided leadership in local communities.

In today's globalised world, the environment is anything but local. Today the working world is global. The information revolution has cut through local links, radically altering traditional and previously permanent relationships with localities and workforce. One time local businesses are now able to, and do, operate from anywhere in the world, as easily as if they were in the room next door to their customers or clients.

Today, the educational world is global. Students and young people, perhaps more than any other part of our global society, take advantage of the opportunities offered by easy travel and the expansion of language ability to

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live, learn and enjoy the experiences of the world wide educational offer.

Today's global world is also in the throes of dynamic and dramatic change. Politically the stability of the Cold War era was created through balance. Balance between competing ideologies, balance between competing economic systems, balance between competing military strengths – all in the context of balanced global spheres of influence. Today's world is struggling to come to terms with the new, global reality. In particular, that new global reality has generated a real sense of dislocation. Dislocation has been felt in many communities, localities and regions, whose very existence has been challenged by the disappearance of traditional industries. The failure and disappearance of many such industries of itself would have been difficult enough. But with global economic forces now able to take advantage of the free movement of capital guaranteed by world trade structures, indigenous governments at all levels, from local to national, are constrained in just what they can do and what levers they can pull to remedy the economic disadvantage to their regions and their people. As a result, economic reality is all to often being accompanied by the disappearance of a way of life, of community values, cohesion and stability.

Alongside that has gone an increase in the gap between those able to grasp the opportunities offered and those who are not. For the latter group, the spiral of long-term unemployment, deprivation, margi-nalisation, poverty and alienation ia tragic.

As the world shrinks in terms of economics, trade, work, politics, education, culture and so on, unless we are very careful, the gaps in understanding and the antagonisms between people will actually grow. Those gaps themselves cannot any longer be anticipated as the 'traditional' ones. The antagonisms and conflicts may not be along the national or historical lines to which we have become accustomed to over the last hundred or so years. That fact is all too evident in the sad experience of the present international conflict.

The demonstrations and street battles that now all too often accompany regular meetings of the World Trade Organisation, the G7 or 8, European Union government leaders and so on are the extreme manifestation of that sense of dislocation. But underneath it lies a far larger proportion of the world community that feels uncertain, unsure of their place in this world; that feels insecure, no longer clear about their future or that of their family; that feels disconnected, unable to see how they have any impact, even through the traditional 'vote', on life around them, let alone in the bigger scheme of things. Their own sense of self worth, cultural rooting and belonging is beginning to fracture.

It is in this ocean of the dislocated that the radical movement of our day is emerging. On its waves are those who cross half the world to demonstrate in Seattle, in Prague, in Gothenburg or in Milan. Most are genuinely concerned for the future. Most are wanting simply to articulate their fears, to be heard. Some, unhappily, have less altruistic motives.

It is sadly the case that whilst more than a million miles removed from the genuine motives of the truly concerned, in the depths of this ocean of the dislocated we also find those engaged in the politics of hate, and it is here as well that they seek their recruits. Nothing could be a greater threat to peace and democracy in our world than that we allow this ocean to get deeper.

But the global world is not going to go away, it is not going to be defeated to facilitate the restoration of some sort of Cold War stability or its equivalent. We must find a new equilibrium. This is where co-operation and co-operators could play a real role. Perhaps uniquely, co-operatives can play a fundamental role in restoring or reinvigorating that sense of local identity, local being and local community that lies at the heart of the genesis of our movement.

This is the time for a renaissance in co-operation. We need to reactivate that sense of local leadership and excitement in co-operative innovation. We need to reinstate the clarity of our co-operative forebearers in focusing on just what co-operatives can do today. I believe that co-operatives are the bridge, the conduit between local communities and local people and the global market. We can re-engage people with their local world and help them to place themselves in the context of the global world.

Is this too ambitious? Our founding fathers had a vision and look what happened. The time in which they were living was equally tumultuous, equally challenging. So how do we do it? Of course, every country, each region, all peoples will have a different co-operative profile, be at a different stage of their domestic development, confront different challenges, have different opportunities. So, how?

Let me give you our thinking, based on our situation and our challenges and opportunities in the United Kingdom co-operative movement. By accident rather than design, in the last three or four years, there has been a coming together of the wider co-operative family in the UK. Driven by the need to regionalise if we are to gain support, but more importantly funding, from government, we are pulling together our powerful consumer co-operatives with the smaller sectors of housing and worker co-operatives, credit unions and so on.

Of course, we have always had dialogue between the sectors, but it was always on a superficial level, always a non-essential part of our business. Now it is becoming fundamental. Now there is a more general awareness of opportunity – that by working together we can secure a greater expansion and benefit for co-operative development than we can by working separately. That experience has engendered a greater sense of trust and confidence between us and less suspicion of our sectoral motives than has existed for decades.

It has also led to the ideas people, the co-operative innovators, reaching out to new segments of our local communities in a desire to reawaken the knowledge and experience of co-operation on the ground – for the young, new co-operative forms designed to involve them locally.

Firstly, the hugely successful football co-operatives. In the past, fans of a local football club would be influential in the running of that club – today, football is big business, successful clubs are floated on the stock market and it is the corporate investors who call the shots. Of course, fans can buy shares in their football club, but what good is the handful of shares that most fans can buy, when compared to the corporate thousands? On their own, those shares held by individual fans give little influence to their owners. But combined, now that's a different matter.

And so our football co-operatives came into existence. Pooling the shares of all the individual fans into a co-operative has given the fans an opportunity not only to hold significant common shareholdings, but in many instances to be able to sit on the Board of their local football club. And one football club has become wholly owned by the co-operative. Started just three years ago, more than forty football clubs now have supporters' co-operatives – giving back to fans something that had disappeared from their horizon. What a culture shock for us in the Co-operative Union to have the most unusual co-operators asking for information on how to run a co-operative and even asking for help on good governance of their football co-operative!

So powerful has that model become that work is now being carried out to look at forming a similar model for the employee shareholders in large private sector companies. Can you imagine any greater irony than an employee co-operative securing places on the Boards of large 'blue chip' companies? Is that not what we mean by empowering people, encouraging participation in the workplace, developing worker knowledge and information on their own company?

Just a few weeks ago we launched the first ever wholly co-operative students union in the UK. With the active support of the National Union of Students, the local consumer co-operative is working with the new students union co-operative helping to mentor the new co-operative leaders, developing their under-standing of how to manage and administer their co-operative. Can this really be the same old co-op?

Working with our credit union colleagues, some of the traditional consumer co-operatives have opened up their shops as collecting points for local community credit unions. But not just as a cash taking exercise – this is much more sophisticated. Credit union members are now able to use the plastic dividend card of retail co-operative stores to deposit and withdraw savings with the credit union. This co-operation between co-operatives avoids an undue work burden on credit union volunteers, it deals with the increasingly worrying security concerns for local credit unions and, of course, it brings members of credit unions into the shops of consumer co-operatives.

As the transfer of services in the UK from public to private provision continues, the co-operative move-ment is opening up the door to those very structures that can offer a middle path in tune with community desires and often local political imperatives. Whilst

the sterile debate rages in our press about the degree of private involvement in the public services, we are set to launch in the coming weeks a new co-operative model of residential care for the elderly working hand in glove with the major public sector trade union.

It will be a community owned model for residential care for the elderly. We are establishing a network of co-operative childcare provision, seeking co-operatively owned and run learning centers and are looking imaginatively at ways we can actively help to develop the UK's rural economy which has been so devastated by the dual scourges of 'mad cow' and then foot and mouth disease.

All of this is designed to ensure that local people remain in ownership and control of local community facilities designed and used by local people. The important fact is that all of these sectors are new for British co-operation. They are areas in which we have been wholly or almost wholly absent until now.

At the same time, the ground breaking report produced by the Co-operative Commission, established with the sponsorship of the British Prime Minister, has shown the way forward if we are to secure a stronger performance for consumer co-operatives.

It has demanded that the movement rededicate itself to its social agenda in order to guarantee the benefits of our virtuous circle, i.e. our clear social agenda providing us with a competitive advantage, leading to commercial success which, in itself, allows us to invest yet more in our social agenda.

Now you in your co-operatives in your country may already be doing all the things that we are just setting out to do in the UK. In fact, we have learned a great deal from our sister organisations in other countries as we have sought to reinvigorate ourselves. And please be clear, I am not saying that our development is the way forward for all. The message that I would like to leave with you is that we must keep in touch with the wider evolution of the economy in the global market. We must keep in touch with the sense of political change that is driving the global economy. We must capture those local demands, whatever they are, that are right for each country or each region.

For too long co-operation has been seen as yesterday's answers with nothing to offer for today's questions. We in this room know that the truth is otherwise. It is up to us to deliver a different verdict on our co-operative generation.

# The Unique Co-operative Response to Globalisation

**by Tan Kin Lian***

For better or for worse, globalisation touches our lives in ways most of us never could have imagined a few years ago. Many would say it is a good thing. Increased international trade has made us wealthier and allowed us to lead more diverse lifestyles. Others disagree and see the growth of global companies as raising more problems than it solves. Co-operatives both as business enterprises and social organisations are facing a number of challenges caused by the globalisation process. The changes have either strengthened them or put their very existence at peril. I wish to share my vision of what the future will bring within the context of a globalising world.

From my point of view, globalisation's effects are overwhelmingly good. Spurred by unprecedented liberalisation, world trade has expanded fast. Millions of jobs have been created. Even more impressive is the increase in international investment that is building roads, airports and factories in poorer countries. In the 1990s alone, foreign investors have poured USD 1 trillion into developing economies. This trade and investment is raising living

standards in some countries faster than many thought possible. Until recently, it took generations for living standards to double but in China, living standards now double every ten years.

For consumers, vigorous trade has made for more choice in the supermarkets, greater spending and a growth in international travel. And that is just the tip of it. Supporters of globalisation say it has promoted information exchange, led to greater understanding of other cultures and allowed democracy to triumph over autocracy.

Yet, as the street protests at various summit meetings have proved, there is a growing opposition to the forces of globalisation. Critics say that the developed countries gain at the

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expense of developing countries. In the developed world, however, not everyone has been a winner. Globalisation has created increased insecurity in the workplace as companies shift their production lines overseas to low-wage economies. Business people behind small firms are afraid that large corporations with the benefit of global economies of scale will put them out of work. In addition, there is a deep concern for negative impacts on the environment and that corporate power might restrict individual freedom. At the heart of the problem is the fact that large multinational corporations are becoming more powerful and influential than democratically elected governments. They might put their short term interests above those of the community.

There is no doubt that globalisation of trade and investment has in some ways made life less predictable for many individuals and businesses. However, to erect trade barriers to try to recapture an earlier era of independence confuses the cause and effect of globalisation. The new world of global markets and instant communication delivers gains in efficiency and competition that are beyond what otherwise would be possible. The goal for the globalisation process is to give the individual more power to control his or her own destiny through lower costs, broader choice, easier access to capital and open markets. The costs of being left behind in the globalisation process are much greater than the losses caused by instability. The challenge is to reduce the fear that the growth it brings is inherently destabilising.

## The Role of Co-operatives

Communities throughout the world are searching for ways to bring about local and regional economic development in the face of pressures consequent in part on globalisation. Experience indicates that one answer is co-operatives. Organisations like credit unions and mutual and co-operative insurance companies have the objective to improve the financial security of the individual. They also mobilise local and regional capital to expand existing businesses and create new ones.

The strength of co-operatives is in their adherence to social values and principles. It is about self-help – about people helping themselves by helping one another. What bodies such as mutual and co-operative insurance societies, permanent building societies, friendly societies and other co-operatives have in common with one another is that they are almost always a response to urgent community needs. For example, the Rochdale Pioneers were responding to an urgent community need in another era characterised by a large change in society.

Co-operatives must now meet the challenge of globalisation and re-invent and re-position themselves to respond to the needs on the part of their members for economic security and development in the new world order. This is even more important since economic security and development play an important role in building peaceful societies. It does not mean that co-operatives should give up their current role but that they should with vision and vigour widen their horizon

and meet the needs caused by globalisation.

## Singapore as an Example

Singapore is a small city-state with a land area of 648 sq km and a population of four million. It is also a country that has been exposed to globalisation in almost all sectors of the economy. Singapore has accepted the winds of change and integrated into the world economy by liberalising its regulatory framework in order to trade successfully and attract investment.

In the Singapore economy, co-operatives have played a major role in developing the country to a first world economy in one generation. The role of the co-operatives will be equally important in the future globalised environment. The early leaders had the foresight to set up co-operatives as a means to help workers beyond wage negotiations. Today, our co-operatives are part of the social safety net. NTUC INCOME provides financial security for over 1 million Singaporeans. NTUC FairPrice is the largest chain of retail stores in Singapore. It provides goods and services often at a lower price than private competitors, thereby helping to lower the cost of living. Even when its prices are not lower, its competitive presence moderates price rises.

Singapore co-operatives have realised that to remain relevant in the era of globalisation they must be willing to break the mould and reinvent themselves. They have done so in many ways. To remain competitive they have embraced talent and recruited professionals. They have made efficient use of IT and communication technology to reach out and serve members and customers better. They have introduced efficiency measurements.

An interesting example of what co-operatives can do for their members to ease their burden in difficult times was when some 29,000 Singapore workers were laid off in 1998, at the peak of the Asian financial crisis. This is not a large number compared to other countries in the region but it was a large number for Singapore. The NTUC group of co-operatives arranged a series of price cuts and financial reliefs worth SGD 26 million (USD 15 million). NTUC INCOME reduced interest rates for policy and mortgage loans and set up a financial helpdesk to provide free advice to policyholders.

## Benchmark Prices

Ten NTUC co-operatives in Singapore have set up "social indicators" so that they can measure their benefits for members and to the community. NTUC FairPrice is ensuring that its members and consumers are able to afford high quality products at the lowest market rate by using its 50 per cent share of the supermarket retail business to set benchmark prices. A basket of 200 essential items has been identified to serve as a social indicator. FairPrice is committed to keep the price of the entire basket at the lowest and at least 90 per cent of the items in the basket at the cheapest in town. A check in March 2000 showed that the overall value of the basket was the lowest amongst supermarkets surveyed and 90 per cent of the items in the basket were one of the cheapest in town.

As a co-operative, NTUC FairPrice shares its profits with its 400,000

members. Last year, more than SGD 26 million (USD15 million) of rebates were distributed. FairPrice also contributed SGD13.8 million (USD 8 million) to the Singapore Labour Foundation to promote the well-being of workers in Singapore.

## Competing with Global Players

How can the Singaporean movement provide such protection for its members and still remain a competitive enterprise in the free market? It is not by government subsidies but by good commercial and business strategies. The yardstick for NTUC INCOME is the surplus from its life fund that is shared by its insurance policyholders. Typically, INCOME has returned or reserved for policyholders 98 per cent of its profits. To celebrate its 30th anniversary in year 2000, an additional bonus of SGD 153 million (USD 85 million) over and above the annual bonus was distributed to life policyholders.

NTUC INCOME serves its customers and looks after their best interests and welfare by operating efficiently. On average, INCOME's expense ratio is about 12 percentage points lower than the industry average. So policyholders pay lower premiums. It is able to achieve the lower expense ratio by being more efficient, through the use of information technology, streamlining of processing, economies of scale, making staff more productive and by avoiding wastage. It is willing to make changes and to improve all the time.

NTUC INCOME's efforts have been successful. The co-operative has been able to improve its market share in spite of fierce competition, to a large part from the global insurance giants. It has also achieved a strong financial standing and has been rated AA by Standard and Poor's. This is the highest rating given to any Singapore-owned company and is the best rating for an Asian-owned insurer outside Japan.

Both FairPrice and INCOME care for customers in many other special ways. Promoting a healthier lifestyle is but one of the activities lined up for customers. FairPrice has engaged professional nutrition consultants to provide useful information on healthier eating. INCOME operates a chain of 17 fitness centres in Singapore.

## The Co-operative Advantage

What other advantages or services can co-operatives provide by putting their principles and values into practice? Co-operatives have a different agenda. They are guided by unique principles and values that distinguish them from global companies. In Singapore the "co-operative brand" has been communicated to the public through cheaper products that help people to get more for their wages and access to better services. It has been a powerful marketing tool providing competitive alternatives to global companies.

Co-operatives provide alternative sources of employment. Unlike the global players, co-operatives are locally based and will not move from one country to another in search of lower costs of production. They are thus stable and reliable employers.

Co-operatives, especially insurers and credit unions, can provide relief to workers to help them over difficult periods through loans and other

measures, as was the case in Singapore during the Asian crisis. Insurers and credit unions provide financial security to people from all walks of life and provide capital for the local industry.

NTUC INCOME provides a 24-hour household repair service which, in addition to being a valuable service to policyholders, provides jobs for local tradesmen. Since co-operatives are owned by their members, they give them access to asset growth, the non-wage component of economic growth.

## Co-operative Response to Globalisation

The example of co-operatives in Singapore highlights some actions that may assist co-operatives to respond to the challenges of globalisation.

a) Professionalism. In order to compete effectively in a globalised world where competitors are several times larger, co-operatives must embrace talent and run their business professionally. This has been the policy of the NTUC co-operatives from the start and it has worked. The competition for talent is strong. Therefore, co-operatives must find ways to attract and retain professional people.

b) Embrace IT. There is great scope to use the internet and IT to streamline operations and improve service to clients. Through the internet, we can be available to our customers 24 hours a day, seven days a week and at reduced cost. This new technology can also be a threat to co-operatives. Global competitors are highly computerised and can use the technology to reach out to the traditional customers of co-operatives. It is also important to use the new technology in a cost effective way, avoiding over-spending that does not bring value to operations.

c) Strategic Alliances. Global competitors merge and form alliances to benefit from the economies of scale. Co-operatives need to co-operate amongst themselves and with private sector companies. Cross-border alliances should also be sought.

d) Promote the co-operative brand. A customer of a co-operative shares in the profits. If the co-operative is successful a larger profit is distributed to customers. If a profit-oriented company is successful, its profit is distributed to shareholders. If it is foreign-owned, the profits are sent overseas. Furthermore, the fact that co-operatives fulfill a social mission is not a handicap.

It distinguishes co-operatives from other commercial entities.

e) Constantly Innovate. Companies need to innovate constantly to remain competitive. Innovation must be in the mindset of every co-operative.

In these times of a global economy and consequent rapid changes, "business as usual" could mean going out of business. Every enterprise has to respond to the challenge of "doing things even better, cheaper and faster than before". To do so means being innovative.

## Conclusion

The globalised world is competitive, challenging and changing. Co-operatives will continue to have a role to play provided they are relevant to the times. That means running the business in an efficient, professional way and delivering high quality of service and promoting the co-operative brand to customers. It is a matter of keeping up with the competition or being left out. Customers have to be convinced that co-operatives are a better choice. Co-operatives also have an important role to play as social levelers in the new globalised economy.

# A Gender and Food Security Perspective

**by Marie Randriamamonjy***

I congratulate the ICA for having chosen a very important and relevant theme in the fast changing economic, political, cultural and social environment that we live in today. I will be addressing the theme "Co-operation and Peace in the Era of Globalisation" from the perspective of gender and food security, on behalf of the Food and Agriculture Organisation of the United Nations (FAO).

I am certain you will agree with me when I say that in a world of continuing instability and violence – exacerbated by recent horrific events – the implementation of co-operative approaches to peace and security is urgently needed. An environment that maintains world peace and promotes and protects human rights, democracy and the peaceful settlement of disputes, as set forth in the Charter of the United Nations, is an important factor for the advancement of women. The equal access and full participation of women in power structures and their full involvement in all efforts for the prevention and resolution of conflicts are essential for the maintenance and

promotion of peace and security. Although women have begun to play an important role in conflict resolution, peace-keeping and defence and foreign affairs mechanisms, they are still under-represented in decision-making positions. If women are to play an equal part in securing and maintaining peace, they must be empowered politically and economically and represented adequately at all levels of decision-making.

Co-operative approaches are also essential to achieving food security. As many of you already know, the noble goal of "food for all" is the guiding principle for FAO's work. Since its inception, the Organisation has worked laboriously to alleviate poverty and hunger by promoting agricultural development, improved nutrition and

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the pursuit of food security. And in trying to build a food-secure world, FAO aims at removing the obstacles to women and men's equal and active participation in agricultural and rural development.

It is abundantly evident that agriculture and food security, locally and globally, are subject to enormous and often unpredictable risks. The risks – or at any rate the perceptions of them – are probably being magnified as agriculture intensifies to meet growing demand, as food systems adjust to respond to rapid urbanisation and as the world becomes increasingly inter-connected with the gathering pace of globalisation. At the same time, however, globalisation and the rapid contemporary advances in technology and communications, if responsibly managed, are opening new opportunities for economic development and for the emergence of a more equitable world.

Indeed, the forces of globalisation are real and their influences are felt everywhere – for better or worse. Within the context of food security and agriculture, liberalisation policies have favoured economies of scale, such as large-scale commercial farming, and export cash cropping over household subsistence production. Moreover, as a result of reduced government spending for the public sector, sponsored agricultural services such as training and investment in rural infrastructure have also been scaled down. The farmers who were already better off seem to have benefited while the overall impact on small farmers appears to have been quite negative.

Due to gender inequalities and discrimination, women can be affected negatively by globalisation processes to a greater extent than men. This is particularly relevant to rural communities. Female farmers have found it increasingly difficult to reap the fruits of globalisation due to, for instance, difficulties in accessing agricultural inputs and services. As stated by the United Nations Secretary-General, "the significant gender differences and disparities with respect to decision-making powers and participation that prevail in different societies must be taken into account when assessing the diverse implications of globalisation and designing the response strategies".

We at FAO recognise that a transformed partnership based on equality between women and men is an essential condition for people-centred sustainable agricultural development. We also recognise that we cannot solve the problem of food security alone and if we are to make any progress we must rely on co-operation with civil society: membership-based, representative self-help organisations of farmers, fishermen and women and foresters.

In this context, the interests and goals of FAO and the ICA converge: we both aim to promote economic and social development that is equitable and sustainable. And we both focus on the same strategic objectives: strengthening institutional capacity, people's participation, gender mainstreaming, creating enabling environments for co-operative development, and promotion of networks. More importantly, we share the values of co-operation: equity,

solidarity, self-help and mutual responsibility.

You will agree with me when I say that co-operatives can make a critical contribution to the achievement of the UN Millennium goals of full and productive employment, eradicating poverty, enhancing social integration and promoting the advancement of women. Indeed, the fundamental values of the UN Millennium Declaration – freedom, equality, solidarity, tolerance, respect for nature and mutual responsibility – are reflected in FAO's and ICA's policies and programmes. Specifically, the Millennium Declaration calls for the promotion of gender equality and the empowerment of women as effective ways to combat poverty, hunger and disease and to stimulate sustainable development.

Indeed, the role of women as powerful agents for social transformation and development has been increasingly recognised by development agencies. Few causes promoted by the United Nations have generated more intense and widespread support than the campaign to promote the advancement of women and gender equality. A continuum of United Nations conferences and summits has served as a cohesive vehicle through which the international community has been able to address the advancement of women across a broad yet interlocking spectrum of concerns and issues.

The UN special session that reviewed the implementation of the Beijing Platform for Action, also referred to as the Beijing +5 Review, reaffirmed the importance of gender mainstreaming in all areas and at all levels of society. It highlighted that efforts towards ensuring women's advancement need to combine a focus on women's conditions and basic needs with an holistic approach based on equal rights and partnerships, promotion and protection of all human rights and fundamental freedoms. Moreover, policies, programmes and budgetary processes should adopt a gender perspective and be based on research knowledge on the situation of women and girls supported with accurate sex-disaggregated data. The Beijing +5 Review emphasised the importance of increasing women's access to decision-making processes, changing patterns of migratory flows, new technologies, and the realisation of women's full enjoyment of economic, social, cultural, civil and political rights.

FAO is also reviewing the implementation of its World Food Summit Plan of Action. Five years ago, leaders gathered at the World Food Summit, held at FAO headquarters, and affirmed their "common and national commitment to achieving food security for all". They recognised the "multifaceted character of food security", emphasising the linkages with poverty eradication, peace, sustainable use of natural resources, fair trade and the prevention of natural disasters and man-made emergencies; and they agreed to work toward the achievement of the intermediate goal of "reducing the number of undernourished people to half their present number no later than 2015".

Overall, the challenges facing agriculture and food security are diverse

and immensely complex. Concerns are arising about the decline of ecosystems and biodiversity, the risk to human health and the environment associated with pesticide and fertiliser over-use, the degradation of land, the narrowing of the genetic base for farm crops and livestock, and the safety for consumers of foods produced under highly intensive systems. Debate is also intensifying over the interactions between agriculture and the processes of climate change, which are not only significantly affected by how land is used but are also expected to have increasingly disturbing impacts on agriculture.

In the five years since the World Food Summit, many such issues have attained a new visibility. They have brought to the fore numerous ethical issues that are central to food security, sustainable rural development and resource management as well as to the trade-offs among these objectives. The resolution of issues raised demands, reflection, dialogue and action. In response to its mandate, reaffirmed in the Quebec Declaration, "to help build a world where all people can live with dignity, confident of food security", FAO has sharpened its strategic orientation to better deal with the major trends and forces expected to have a bearing on FAO's work.

Notwithstanding the extensive efforts in fighting world hunger, we need to acknowledge that progress in achieving food security has been slow and uneven up to the present time. Poverty is a major cause of food insecurity. Efforts to increase food supplies and accelerate economic growth will bring overall benefits to the country and society but, unless accompanied by complementary targeted measures, they are unlikely to completely eliminate poverty and food insecurity among rural populations. More sustainable livelihoods and food security can be ensured for these populations only through efforts to increase individuals' opportunities and choices and improve resource productivity, thereby resulting in higher rural incomes and improved access to food. The promotion of gender-sensitive, participatory and sustainable strategies and approaches, based on self-help, capacity building and empowerment, are necessary to improve the skills of the rural poor, local civil society and rural people's organisations.

In its 1996 World Food Summit Plan of Action, FAO called on governments to foster the social and economic organisation of the rural population with particular emphasis on the development of small-scale farmers' co-operatives, so that rural inhabitants may become actively involved in decision-making, monitoring and evaluation of rural development programmes. It also called for the promotion and empowerment of small-scale family farmers, both women and men, to set up their own co-operatives and business undertakings.

Agricultural co-operatives and farmers' organisations serve many purposes: they permit economies of scale for their members to access services; they provide an institutional means for integrating the smallholder sector into the national economy; they enable the increased exchange of goods and

services between traditional and other sectors of the economy; and they allow members to benefit from technology transfer. I am sure we all agree that genuine self-help organisations, especially those that are based on member initiatives and controlled and financed by them, can play an important role in creating "social capital" in rural areas. However, in many parts of the developing world, the rural poor have limited access to such organisations, as membership is based on land ownership. Moreover, rural women's situation is further exacerbated by their legal, social and cultural status.

Most of us are aware that rural women's participation in co-operatives is low, although I am pleased to note that the number of women's groups and organisations promoting women's participation in agricultural development has increased significantly over the past decade. These groups have played an important role in increasing rural women's visibility at local and international levels; representing and safeguarding women's rights; improving women's ability to control their earned income; facilitating women's access to agricultural resources and services, and influencing policy-making and legislation.

In addition, with greater freedom to decide on the types of business to conduct through a co-operative, the way is open for the development of activities of specific interest to women, such as small co-operative mills, food storage and preservation, production of household necessities like soap and clothing, small animal raising and handicrafts. Such activities are already taking place through so-called informal groups. In Benin, for example, while only 8 per cent of rural women are members of co-operatives, 90 per cent belong to 'traditional' or informal groups. An important reason for this apparent imbalance is that they keep control over their own money when it is channelled through women's informal groups.

An example of recent FAO assistance in this field is the successful income- and employment generation programme that focuses on capacity building of rural workers' organisations at grass-roots level, targeting landless women labourers in Asia. A second relevant FAO activity is the provision of technical assistance to improve regional networking and capacity building for the development of agricultural co-operatives. This recognises rural women as successful managers in savings and credit co-operatives, as well as agrricultural and fisheries co-operatives. Thirdly, FAO, in its efforts to alleviate rural poverty, promotes the development of small enterprises targeting primarily rural women.

A fourth technical area aimed at enhancing rural development is the promotion of capacity building for tribal women and men – who are often the most affected by poverty as they lack basic rights. In this context, FAO is supporting savings and credit groups for tribal people, with the aim of developing co-operatives and small/medium enterprises through the promotion of management and leadership skills.

Finally, FAO is also involved in strengthening rural women's participation in local decision-making processes, through capacity building initiatives.

Overall, the international community has greatly enhanced its awareness of women's roles and potentials, but a lot remains to be done in terms of translating sensitivity and commitment into responsive action. Agricultural development policies still do not reflect the needs of women adequately and if they are incorporated, they often fail to be translated into practice. This remains a barrier to reaching the goal of food for all in the foreseeable future. An innovative approach to development and, in particular, agricultural development is required. Policy and decision makers, planners, researchers, development agencies and other partners in development must recognise fully the crucial contribution that women make and can make to agricultural production and food security, if the opportunities and services are provided to them on an equal footing with male farmers. In this context, co-operative movements should provide a new impetus in promoting gender equality and increasing the participation of women in decision-making processes.

I am confident that, through coordinated policy and approaches and genuine, viable and self-reliant farmers' organisations, the co-operative movement will be an increasingly adaptable and valuable partner of FAO in pursuing the noble goal of food for all.

# Co-operatives and Globalisation: An ILO Perspective

**by Jürgen Schwettmann***

The International Labour Organisation (ILO) is – quite obviously – primarily concerned with the impact of globalisation on employment. The World Summit for Social Development held in Copenhagen in 1995 committed heads of state and government to promote the goal of full employment as a basic priority of our economic and social policies, and to enable all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work. The ILO was given the mandate to help member states to fulfill this commitment. Today, the primary goal of the ILO is therefore to promote opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. This is ILO's "decent work agenda".

This presentation looks at the nature of globalisation and its impact on employment and the world of work. It examines how co-operation can help to tackle the employment challenges brought about by globalisation, and thus contribute to poverty alleviation,

social justice and peace. It ends by pointing out three concrete measures that the ILO is taking after the ICA General Assembly to strengthen the role of co-operatives in the promotion of decent work.

## The Triple Nature of Globalisation

The term globalisation is a generalisation, which focuses on particularly strong emerging patterns such as increased world trade and investment, growing international financial flows and the creation of a single political system after the end of the Cold War. Globalisation is not limited to the economic sphere; it includes social and political changes such as the general acceptance of

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democracy and pluralism as desirable political systems, as well as the move towards greater individual freedom and decentralised decision-making. Globalisation has been fostered by information and communication technology, and has led to the adoption of a "Western" culture by young people all over the world.

It is, however, in the economic sphere that globalisation has the greatest immediate impact. The market economy is now the only surviving economic system; we are witnessing a global shift from production to services; national economies are being integrated into regional blocks almost everywhere on the planet; and deregulation, liberalisation and privatisation have become the key terms of economic policy anywhere.

But globalisation does not mean that every economic activity is global. Most people still work in jobs that are fixed in place and remain rooted to a particular town or nation for all their lives. Therefore the term globalisation reflects a distinctive expansion of international economic activity rather than the complete replacement of local activity by global activity.

## The Global Employment Challenge

Globalisation opens new opportunities for sustained economic growth and development of the world economy. At the same time, however, the rapid processes of change and adjustment associated with globa-lisation have been accompanied by intensified poverty, unemployment and social disintegration. In some ways, the global economy today resembles the capitalist economies as they were at the end of the nineteenth century – with affluence and opportunity at one pole and unemployment, poverty, insecurity and lack of opportunity at the other.

The policy makers in the world today are faced by a daunting employment challenge. The employment challenge is not only one of income, since employment is a primary vehicle for self-realisation and social integration. The fair treatment and dignity to which people aspire in employment must be assured in order for there to be decent work. The challenge therefore is not "just" to create more jobs – the challenge is to create decent employment for everyone. Employment needs to be placed at the centre of the policy-making agenda because properly developing and using human resources is crucial in achieving higher productivity and ensuring equitable growth.

## The Changing World of Work

The different facets of globalisation, in particular the deregulation of (labour) markets, the privatisation of public companies and liberalisation of international trade and finance, have had a considerable impact on the world of work:

- We are witnessing in many countries an informalisation of the economy and, consequently, the disintegration of labour relations and a deterioration of working conditions. The share of the informal sector in the national economy is growing even in those countries where that share has already been very high. In addition, the percentage of women in the informal economy is

on the increase, thus causing the feminisation of the informal sector.

- The tremendous progress of information and communication technologies enables more and more people to do their work at home. This creates new job opportunities, but also contributes to the isolation of the employee vis-à-vis his or her employer and colleagues.
- The outsourcing strategy pursued by many companies for reasons of cost-effectiveness amplifies the phenomenon of "disguised employment relationships": this means the re-hiring of dismissed employees as "independent" sub-contractors who are not entitled to any social benefits.

All the above weakens the position of the traditional social partners, i.e. trade unions and employers' organisations; they do not cover informal sector workers and enterprises, they do not represent the interests of the newly independent sub-contractors, and they cannot defend the rights of workers working outside national boundaries. As a result, the world of work as a whole has become less structured and more volatile. Such a flexible labour market may create more jobs – but it is likely that the additional jobs are of very low quality.

## The Decent Work Deficit

Decent work finds expression in workers' feelings of value and satisfaction, and its absence can be noticed at once. Decent work is about our job and future prospects, about our working conditions, about balancing work and family life, about gender equality and equal recognition; it is about the personal abilities to compete in the market place, about receiving a fair share of the wealth that one has helped to create, and not being discriminated against; it is about having a voice at the workplace and in the community. Decent work is missing when:

- there is involuntary unemploy-ment and poverty;
- there are abuses of rights at work, and forced and child labour exists;
- basic income security is missing, and workplace anxiety, depression and exhaustion are commonplace;
- workers and employers are either not organised to make their voice heard, or face obstacles to effective dialogue;
- life at work cannot be properly balanced with the claims of the family.

## Decent Work through Empowerment

Workers and entrepreneurs operating in the informal economy have no voice and very little bargaining power. The simple fact of organising these people into co-operative type organisations greatly increases their ability to participate in decision-making processes, and to better negotiate conditions and prices with clients, customers, suppliers and banks. There are many striking examples of how co-operative organisations have successfully built a bridge between the informal economy and the formal sector, thus greatly enhancing the job quality of their members.

The same is true with regard to the

organisation of small consumers and producers. In fact, because of their democratic nature, co-operatives have the capacity to empower people, as they have proved since the times of the Rochdale Pioneers. By organising people, co-operatives can therefore fill the structural gaps that are left after the withdrawal of the state from economic and social functions.

## Decent Work through New Opportunities

Globalisation creates new opportunities that can be used by co-operatives to create decent jobs through self-help. One example are co-operatives that exist on the internet or through the internet, or that use the internet as a new type of "common bond". We have come across several examples of small co-operatives operating in developing countries that use the internet successfully to market their products. In other cases, self-employed people such as translators have formed "virtual co-operatives" on the internet in order to be able to offer a broader range of translation services and to standardise contractual arrangements. Finally, many internet service providers are actually co-operatives established by internet users.

The very nature of co-operatives as value-based organisations provides them with a comparative advantage. Co-operatives have indeed a distinct job creation potential. They can create jobs in economic sub-sectors or geographical regions that would not be "profitable" for capital-oriented companies, simply because profit and shareholder value are not the sole guiding principles of a co-operative. There are many examples of co-operatives having saved thousands of jobs through the collective action of the employees of ailing companies.

## Decent Work through Greater Protection

Co-operatives have demonstrated their capacity to organise social and community services that the state is no longer willing or able to provide. This includes co-operatives established by the users and providers of health services, as they can be found on all continents, as well as childcare and preschool co-operatives, co-operatives for the elderly and community services co-operatives. In many cases, these co-operatives are the only channel through which poorer citizens can gain access to basic social services, which is indispensable for decent work.

Social care co-operatives formed to provide assistance to vulnerable groups are also relatively new, and a direct result of the crisis of the public welfare system in many industrialised countries. The most prominent example of this particular type of co-operation are certainly the Italian social co-operatives. They extend basic social services to excluded population groups such as the handicapped, the elderly, homeless people and drug addicts. At present there are over 2,000 social co-operatives in Italy whose contributions are equivalent to 1 per cent of the state expenditure for the social sector. In addition, they have created over 60,000 jobs for marginalised people.

There are many other very interesting examples of socially oriented co-operatives, or of co-operatives providing social services. Co-operatives

may indeed provide the ideal, alternative delivery mechanism for user-controlled, democratically managed and locally rooted social services. Co-operatives can thus help to privatise social services in a decent way.

## Decent work through Co-operation

This presentation aimed at showing that co-operatives can empower people through concerted action, create opportunities through joint initiative and enhance social protection through mutual help. These three elements – empowerment, opportunity and protection – are the key ingredients of any poverty alleviation programme, as it has been discussed extensively in the recent poverty reduction strategy paper published by the World Bank. Genuine, autonomous, well-managed and economically viable co-operatives can do a lot to alleviate poverty, fight social exclusion and strengthen social justice, and thus contribute not only to decent work, but to peace.

It is our responsibility to show that co-operatives have a greater role to play in an environment characterised by globalisation and a changing world of work. We must put co-operatives as a development option on the agendas of policy makers everywhere.

## The Next Steps

The ILO has organised the first Global Employment Forum, which aims to adopt a new Global Agenda for Employment and build a global alliance for employment. The Global Agenda considers co-operatives "as enterprises that combine productivity and competitiveness with social objectives, thereby making them unique vehicles for quality job creation". The ILO Co-operative Branch is associated with the follow-up to the Forum.

The first discussion on a future ILO Recommendation on the Promotion of Co-operatives took place during the 89th International Labour Conference in June 2001 in Geneva. These discussions resulted in a draft Recommendation which was sent in August for comments to all ILO constituents. Simultaneously, the ICA sent the draft Recommendation for information to all its members. We would suggest that all co-operative organisations get in touch with their country's tripartite constituents – governments, workers and employers – in order to offer their advice in preparing comments on the draft Recommendation. On the basis of these comments, the ILO will publish a revised version of the draft Recommendation which will be sent to our constituents in early 2002. The final discussion on the recom-mendation will take place in June 2002 in Geneva. Once adopted, the new Recommendation will form the conceptual basis for ILO's work in the field of co-operative development. The 90th International Labour Conference in June 2002 will also include a "General Discussion" on the Informal Sector. The preparatory document for this discussion contains an extensive chapter on the issue of "voice".

There, the role of co-operatives in empowering informal sector workers and in providing them with voice and representation has been discussed extensively and very positively.

# Why Youth Inclusion is crucial for our Future

**by Teo Say Hong***

This contribution focuses on the importance of youth inclusion for co-operatives in this new era. We live at a time when there are so many things that serve to divide us: regional, social and cultural differences, economics, as well as politics. We live in a new age where the pace of change is extremely rapid, brought about by technological advancement and globalisation.

Technology like the internet has made geography almost meaningless. Globalisation has also led to intense competition across national borders, creating digital divides as well as opportunities that are coupled with an unprecedented pace of social exclusion and isolation.

Enterprises are gearing up each day to create a competitive advantage that meets the changing demands of customers, and doing so by updating customers' needs and exploiting their knowledge about these customers through the use of information technology. The co-operative movement is not immune to these rapid

changes. It is also wrong to assume, however, that enterprise is the monopoly of private businesses alone.

We all know that a co-operative is an enterprise that has a competitive advantage when compared to a business corporation, because it is endowed with an inherent strength, i.e. members. The extent to which a co-operative can bring out the best from its members by practising its co-operative values and principles will determine the competitive advantage it might have in the marketplace and society.

To ensure the continuity of co-operative values and principles, the inclusion of youth can never be ignored. Recent changes in the political, economic and socio-cultural spheres have affected young people profoundly. Due to the

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global economic downturn, young people are also facing the impact of increasing levels of unemployment. Job opportunities are not as forthcoming as before for graduates.

Competition among young people entering the labour market has become extremely fierce, as the business sector attempts to seek out only the most highly qualified among this important segment of the population. Similarly, co-operatives should also attract the most qualified to run their operations in order to ensure their high standards of service and professionalism. However, in addition to paper qualifications, the young people whom co-operatives attract must also believe strongly in co-operative values and identity. Hence, it is crucial to the survival of co-operatives that our youth inclusion efforts are made at the earliest possible date.

## What Youth Can Offer

Other than the succession issue, there is a lot more that young people have to offer to co-operatives. Youth brings about new thinking and ideas. I remember a saying that young people create the impossible because they have never experienced the impossible. The experiences that we have had in the past might sometimes become more of a hindrance to achieving a better future. So I challenge you to summon up the courage.

I am not asking you to run into a wall that you have previously knocked against, but to give young people a chance to show you ways to climb, knock down or bypass the wall to reach our goal. Youth also has the potential to grow and learn new skills. In this rapidly changing world, the skills and experiences that we once acquired might no longer be applicable or have become obsolete in a matter of months or years instead of decades.

In contrast, young people are more interested in new technology and new ways of doing things. They will be more willing to learn and are able to pick up new skills faster. It would be a mistake if co-operatives overlooked the opportunity to tap into this pool of human resources during the global economic downturn.

Because of this economic downturn, many young people are depressed and disappointed with their future prospects. Some take to the street and are involved in crimes while others protest and demonstrate against the government to show their dismay. Here lies a golden opportunity for the co-operative movement to reach out to young people and to show them the co-operative way of life. It is only through benefiting from our movement that youth will be able to become total believers of co-operative values. And only by having this strong conviction will these youths become the true co-operative leaders of tomorrow.

## What Co-operatives Can Offer

In our efforts to include youth, we must face outwards towards youth and not inwards towards the co-operatives. Never ask what youth can do for you, ask first what you as co-operators can do for them. This requires a change of mindset among our co-operative leaders. History has shown that great leaders are people who can think out of the box and convince others to follow their beliefs.

It is therefore good to remind co-operative leaders that co-operatives must deal with the issues facing the day-to-day lives of young people in their communities. First and foremost: how they live, how they work, how they relate to the environment, what they value and treasure most, what impresses them. It means focusing on youth with a strategy that, while not undermining the pursuit of business excellence, provides a value-added thrust that empowers youths to feel good and to participate in building their own communities.

Co-operatives including ICA must not seek to impose their agenda on youth but must seek to reach out to deal with issues and activities that are of concern to them. Market research on youth needs should be conducted. Focus groups for discussion of youth issues should be organised. Feedback channels where youth concerns are voiced should be provided.

What I am saying is that if young people are concerned with job opportunities upon graduation, provide them with jobs in your co-operative. Or if they are interested in being entrepreneurs and want to be self-employed, convince them by selling the co-op way of doing business. Help them to set up a co-operative doing the things they want to do. Let them learn by doing. Here we should also think beyond the traditional sectors that co-operatives are in. We should be exploring areas like sports training centres, fast food chains, coffeehouses, music stores, cultural centres, fashion outlets, etc – the things in which youth are interested in.

I understand that this is not the traditional area for co-operatives, but if young people want it and they know best what types of products and services their peers need, why not support them? Let the youth decide what they want to do. Co-operatives are a way of life. Please do not restrict the great values of co-operation only to the traditional arena.

It is vital that resources are made available and that the young themselves are encouraged to self-help solutions for their own needs for resources. Credit co-operatives can play a part by providing seed funds required after evaluating feasibility. In addition to funding, skills training, business expansion support, creation of support networks, business counselling and mentor support are just as important. Youth entre-preneurship programmes can offer considerable social benefits in terms of reduced youth unemployment and can impact favourably on an area's economic development.

It is also just as vital that young people are trusted to run their co-operative and develop their own agenda. ICA should be a facilitator to youth development and not a director of their lives. But youth must constantly be challenged to think about the implications of the co-op values and identity on their newly founded business. This means that they should not be lectured to but given opportunities to apply and evaluate co-operative values in the form of their own lifestyles. Only by experiencing the values of co-ops will they become convincing promoters of co-operation among other young people. There is no better form of training for our future leaders.

For co-operatives to be attractive to youth, we should also touch on the softer side of human beings. Caring for society and the environment by the co-operative movement can also help in building the sense of "feeling good" by being a member of a co-operative. This is a potential area which co-operatives can explore and which also helps to impress youth. We should not just be seeking future leaders of co-operatives but also future leaders who will care for our society and our environment.

The inclusion of youth in co-operatives can be achieved in three different ways. First, by introducing special, ad-hoc projects proposed and agreed by youth and for youth. It might be a recycling project, repainting of an old folks' home, etc. It could also be a new business venture.

Next, by introducing permanent youth groups or organisations of young co-operators, we can promote co-operative values and further co-operative objectives among them. This might be a formal structure under the umbrella of primary co-operatives. Young people would be running the show and calling the shots with advice from the mentor. They would also be the ones to reach out to other young people. And it would be even better if a youth representative could be elected or co-opted on to the parent co-operative.

Finally, involve them in regional and global co-operative activities. This involvement could be in the social or economic exchanges or even governance at the regional or global level. This would help to promote the exchange of ideas and views and the sharing of experience. It would also help in the understanding of different cultures and in learning to live peacefully with people of different cultural, religious and social backgrounds.

## Conclusion

It is important to reiterate the message of our ICA President during the youth conference that "the enhancement of the co-operative movement through youth commitment could best be achieved if we were to create a realistic link between the co-operative idea and the aspiration of the young".

To reach this goal, present co-operative leaders must be ready and willing to change their mindset about youth. Unless succession planning with a fresh young leadership takes place sooner rather than later, the co-operative movement will be left with a gap that will be all the more difficult to bridge in the future. It is essential that co-operatives work closely with each other to reach out to the young. I would also like to propose, on behalf of the youth delegation, the moving of a motion to ICA to "call for every primary co-operative to develop a youth charter or group who can elect one member to the co-operative board (as either a full member or as an observer) in order to prepare for future leadership of the co-operative movement". The future success of the co-operative movement will depend to a large extent on fresh leadership that can stimulate young professionals to carry onwards the co-operative torch.

**INTERNATIONAL CO-OPERATIVE ALLIANCE**

**General Assembly – Seoul, Republic of Korea**

**17 October 2001**

# Draft Minutes

# International Co-operative Alliance

General Assembly – Seoul – 17 October 2001

**DRAFT MINUTES**

## 1. Opening

The ICA President, Mr. Roberto Rodrigues wished all present a warm welcome to the General Assembly 2001 and called the General Assembly to order.

Before turning to the business at hand, the President asked the Assembly to stand and observe a minute of silence in recognition of the following co-operators that had passed away: Mr. G.K. Sharma, Mr. Yvon Daneau, Sir Robert Southern, Mr. Peter Soiland and Mr. Jack Shaffer and in recognition of the victims of the tragic events in the United States.

The ICA President announced that this Assembly was well attended with 216 representatives, with 12% of the representatives being women; 410 observers, with 26% women; 12 guests, 9 members of the press and 37 personal interpreters.

## 2. Adoption of the Agenda

The President suggested the following changes to the agenda that had been circulated prior to the Assembly:

- that there be no reporting from the business forums during the meeting – the conclusions will be made available on the ICA website
- that the amendments of the Standing Orders be discussed prior to the presentation of the candidates to the elections.

There being no other proposed changes the General Assembly approved the amended agenda by acclamation.

## 3. Draft Minutes of the General Assembly in Quebec in 1999

The draft minutes were approved by acclamation.

## 4. Report of the ICA President

The President said he would be brief as the delegates had already received a written summary of his activities in the last two years since the Québec General Assembly. Since the Assembly in Québec in 1999 the President has been participating in approximately 234 international events as well as in 137 national events in his home country, Brazil. During this two-year period he has embarked on 58 working visits and visited 38 countries. One of these meetings was about sustainable agriculture, "The Best Usage of National Resources to Ensure the Food Production Cycle", promoted by United Nations Commission for Sustainable Agriculture. The meeting was held in New York in April 2000. He reminded participants that in Québec a document named "Vision Statement for 2005" and an action plan was approved. He

reported that implementation of the action plan was on going and that the ICA Board had confirmed a new administrative structure according to four focus areas: Co-operative Identity; Inter-national Co-operative Presence; Development; Membership/Net-working with Communication as an important crosscutting issue. It is expected that the new Presidency and Board Members would continue implementation of the action plan. He noted that another very important issue was the review of the ILO Recommendation 127 and this would be an issue for comments later during the Assembly. With regard to membership, he noted during the mandate of the now outgoing Board, ICA had seen an increase of 13% in membership - 253 members. He further highlighted that until 1997, ICA had operated very centrally. Specialised organisations were like satellites circling around ICA, while today ICA had institutional co-operation with all the specialised organisations. The creation of the Rochdale Pioneers Prize that was awarded this year to Dr. Kurien from India was also an innovation.

The President concluded with comments on ICA's financial situation.

The draft final accounts for 2000 as presented showed a loss of almost CHF 1.2 million, wiping out literally all of ICA's reserves. The losses came from payments to Mr. Bruce Thordarson and Ms. Mary Treacy, totalling CHF 485.000; deficits in the Regional Office for the Americas, CHF.392.905; for the Regional Office for Asia & the Pacific, CHF 144.000; for the Regional Office for Eastern, Central & Southern Africa, CHF 29.000; and for the Regional Office for West Africa, CHF 61.000.

He stressed that the Secretariat had worked hard to re-plan and re-budget and now exercised strict monitoring and control. He further noted that the Finance Committee meeting in September had confirmed that bloodletting seemed to have been stopped. Further information was provided in the Director-General's report.

## 5. Report of the Director-General

The Director-General highlighted the four major focus areas of ICA's work: Enhancing co-operative identity, Promoting international co-operative representation and presence, Support to co-operative development and Networking – keeping the ICA family together. He commented upon ICA's deep involvement in the work with the revision of ILO Recommendation 127. Finally he commented upon ICA's financial situation and the Board Motion to the General Assembly on ICA's Financial Situation.

## 6. Report of the Independent Auditor

The Auditor in charge of Ernst & Young, Mr. Mark Hawkins commented upon the financial statements for the years 1999 and 2000. The conso-lidated statements for the two years present fairly, in all material respects, the financial position of the International Co-operative Alliance as of December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

## 7. Report of the Audit & Control Committee

The Chairman of the Audit & Control Committee, Mr. Ivar O. Hansen, commented upon the way the Audit & Control Committee had worked, the financial problems encountered by the ICA as well as the sources for the deficits. He also read out the recommendations to the new Board given in the Audit & Control Committee's Report for the Years 1999 and 2000.

Finally, Mr. Hansen, on behalf of the Audit & Control Committee, submitted the recommendation to the General Assembly to approve the audited accounts for the years 1999 and 2000.

The General Assembly approved the ICA annual accounts for the years 1999 and 2000 and the report of the Audit & Control Committee.

## 8. Ratification of the appointment of Mr. Karl-Johan Fogelstrom to Director-General ICA

The General Assembly approved by acclaim the ratification of the appointment of Mr. Karl-Johan Fogelstrom as Director-General of the ICA.

## 9. Amendments to Standing Orders

The Board on further examination proposed to withdraw the proposed amendment to the ICA Standing Orders, paragraph 4 of Section III of Standing Orders.

The General Assembly agreed not to amend paragraph 4 of Section III.

The second amendment related to paragraph 20 of Section IV of Standing Orders. The proposal was to delete all after the first sentence and substitute "a ballot shall be held on the recommendation of the Board or on the demand of five member organisations"

The amended Standing Order will then read: "All motions shall in the first instance be submitted to the vote by a show of hands. A ballot shall be held on the recommendation of the Board or on the demand of five member organisations"

The General Assembly agreed to amend paragraph 20 of Section IV of Standing Orders as read above.

## 10. Presentation of Board and Audit & Control Committee Candidates

The candidates present introduced themselves to the General Assembly.

## 11. Elections

### *11.1. Election of ICA President*

The sole candidate for the Presidency of the ICA Mr. Ivano Barberini, of Legacoop, Italy was elected by acclaim.

### *2.2. Ratification of elections of ICA Vice-Presidents*

The General Assembly ratified by acclamation the elections of the four Vice-Presidents, Ousseynou Dieng as Vice-President for Africa, Mr. Miguel Cardozo as Vice-President for the Americas, Mr. Mu Li as Vice-President for Asia & the Pacific and Mr. Lars Hillbom as Vice-President for Europe.

### *11.3. Election of ICA Board Members*

The following candidates for the Board were elected to the Board:

Ms. Rahaiah Baheran, ANGKASA, Malaysia; Mr. Chung Dae-kun, National Agricultural Co-operative Federation, Korea; Mr. Jean-Claude Detilleux, Groupement National des Coopératives, France; Mr. Steinar Dvergsdal, Federation of Norwegian Agricultural Co-operatives, Norway; Mr. Valentin Ermakov, Centrosojuz of the Russian Federation, Russia; Ms. Pauline Green, Co-operative Union, UK; Mr. Mutsumi Harada, Central Union of Agricultural Co-operatives, Japan; Mr. Jens Heiser, GdW Bundesband Deutscher Wohnung-sunternehmen; Mr. Hosea Kiplagat, Co-operative Bank of Kenya, Kenya; Ms. Stefania Marcone, AGC/Legacoop & CONFCOOPERATIVE Italy; Mr. David Miller, Nationwide, USA; Mr. Yehudah Paz, Central Union of Co-operative Societies, Israel; Mr. Sawai Singh Sisodia, National Co-operative Union of India (NCUI), India; Mr. Glen Tully, Conseil Canadien de la Cooperation (CCC)/Canadian Co-operative Association, Canada; and Mr. Americo Utumi, Organisation of Cooperatives, Brazil.

### *11.4. Election of Audit & Control Committee Members*

The following candidates were elected to the Audit & Control Committee:

Mr. Pal Bartus, Co-op Hungary, Hungary; Mr. Jakub Janiak, National Auditing Union of Workers' Co-operatives, Poland; Mr. Wilhelm Kaltenborn, Gesamtverband deu-tscher Konsumgenossenschaften (GDK), Germany; Ms. Gun-Britt Mårtensson, HSB: Riksforbund (Union of Housing Co-operatives), Sweden; and Mr. Shigenori Takemoto, Japanese Consumer Co-operative Union (JCCU), Japan.

## 12. Motions/Resolutions

### *12.1 ICA's Financial Stability*

The representative for Folksam, Sweden, Mr. Ellis Wohlner proposed an amendment to the motion submitted by the Board in the form of three additional points. The proposal was approved by the General Assembly and the Board Motion on ICA's Financial Stability (Appendix 1) was unanimously approved by the General Assembly.

### *12.2 Food Security*

The motion (Appendix 1) was unanimously approved by the General Assembly.

### *11.3 Election of ICA Board Members*

### *12.3 Co-operative Advantage*

The motion (Appendix 1) was unanimously approved by the General Assembly.

### *12.4 Peace and Democracy*

The motion (Appendix 1) was unanimously approved by the General Assembly.

### *12.5 Co-op Policy and Legislation*

The Motion (Appendix 1) was unanimously approved by the General Assembly.

### 12.6 .coop

The Motion (Appendix 1) was unanimously approved by the General Assembly.

### *12.7 Rio Co-operative Declaration*

The Motion (Appendix 1) was unanimously approved by the General Assembly.

## 13. Future Meetings

The General Assembly noted with thanks the offer from the Norwegian

Co-operative Movement to host the ICA General Assembly 2003 in Oslo, Norway in September 2003.

The General Assembly decided to hold the next ICA General Assembly in Oslo, Norway in September 2003.

## 14. Closing of the General Assembly

The outgoing ICA President, Mr. Roberto Rodrigues congratulated Mr. Ivano Barberini, the four Vice-Presidents, and the incoming Board and Audit & Control Committee members. He wished them all success in their new mandates.

Mr. Rodrigues then invited Ms. Stefania Marcone of Legacoop to the podium, where she made a presentation of the incoming ICA President, Mr. Ivano Barberini. Mr. Barberini made a brief presentation highlighting issues he considered important in his new function as ICA President.

Mr. Roberto Rodrigues on behalf of the General Assembly expressed his sincere appreciation to the host, the National Agricultural Co-operative Federation of Korea for their tremendous efforts. The efficient arrangements had enabled ICA to have a very successful meeting. He also thanked Mr. Chung Dae-Kun, Chairman of NACF, and Mr. Churll-Hee Won, ICA Board member and Mr. Shil-Kwan Lee and all their hard working staff.

Mr. Rodrigues also thanked all the ICA staff for their hard work in making the event a success. He further thanked the interpreters who had facilitated the discussions during the meetings. And finally, he thanked all the ICA members that had come to Seoul in such large numbers: "It is only through your continued support that ICA can carry out its role – and it is thanks to you that the ICA exists. I hope you all feel that our meetings here have been worthwhile and I count on you all in implementing the decisions that have been taken together here. The future of Co-operation is in your hands. Let us join together to make the co-operative difference to our members, our communities, our nations, our regions and the world."

Mr. Rodrigues wished all a safe trip home to all and declared the ICA General Assembly 2001 officially closed.

**Roberto Rodrigues**
ICA President

**Karl-Johan Fogelstrom**
Director-General ICA

ICA General Assembly
Seoul (Korea)

# International Co-operative Alliance

General Assembly – Seoul – 17 October 2001

## Resolutions Adopted 17 October 2001

### ICA Financial Stability

*Submitted by the ICA Board*

**The ICA General Assembly,**

**DECLARES** that ICA is indispensable for the co-operatives in the world as an advocate, promoter and defender of the co-operative identity, as the global representative for the co-operatives in international fora, as a promoter of co-operative development in developing countries and in countries in transition, and as the focal point in the vast network of co-operatives representing various sectors in the whole world,

**NOTES** that ICA has experienced a very difficult year 2000 and that all ICA member organisations, through the ICA Annual Report 2000, have received information about the financial result for the year 2000 and the main sources for the deficit,

**NOTES** that during this ICA General Assembly 2001 the representatives have received information about the reasons for the deficit and information about the measures taken and planned to be taken by the ICA Board and the Secretariat to rectify the situation,

**NOTES** that the projection of the financial result for 2001 indicates that ICA is achieving balance between revenues and expenditures, but that ICA's liquidity situation, as a result of the deficits, has developed in a negative direction requiring urgent action,

**RECOGNISING** that the ICA Board has decided to create a Task Force to be appointed without delay by the new Board among the ICA Board members to work together with the Director-General ICA to restructure, reform and improve the efficiency of the work of ICA in its entirety, to review its financial, organisational and subscription frameworks and relationships between the central and regional offices and report by 1 December 2001,

**RECOGNISING** that the ICA Board has decided that ICA shall reduce its expenditures by 10% in 2002.

**ASKS**, to approve the following measures in order to restore ICA's financial stability:

1. a 10% increase of the annual subscription fee, including the minimum as well maximum level subscription, for the year 2002 and onwards;

2. that ICA member organisations pay the increased subscription fee in advance upon receipt of invoice by end of October/early November 2001, and not later than 31 December 2001. In extraordinary cases the payment can be made in two instalments of 30% immediately, with the balance, 70%, paid by 31 December 2001;
3. that immediate firm action to be taken to recover as much as possible of the CHF 400,000 in unpaid subscriptions; or that memberships be terminated in accordance with Article 7A of the ICA Rules;
4. that lists be published before each year's Regional/General Assembly of organisations not meeting their obligations;
5. that Board members whose organisations do not meet their obligations in full are automatically excluded from Board meetings / activities.

## Food Safety

*Submitted by the Japanese Consumer Co-operative Union JCCU*

**The ICA General Assembly,**

**NOTES** that one of the outcomes of the globalising economy is the harmonisation of national food safety standards by international bodies interalia the FAO/WHO Codex Alimentarius Commission,

**COMMENDS** the ICA for taking initiatives to protect consumer rights and safeguard consumer health by its participation in international bodies dealing with food safety issues,

**RECOGNISES** the need to push governments and international standards organisations in formulating the international standard to secure food safety,

**CALLS ON** its member organisations to strengthen the business efforts to provide safe and reliable food and the international co-operation among them,

**ASKS** that member organisations urge governments and international standards organisations to enhance public trust in food by interalia:

1. establishing updated legislation and social system for securing food safety to safeguard the public health and intensify the international co-operation concerning food safety;
2. promoting active participation of consumer representatives in policy-making and ensure the transparency of decisions; and intensify such measures in standard setting organizations; and
3. conducting the extensive pre-market evaluation and environmental assessment when introducing Genetically Modified foods, require clear and explicit labelling of GM foods and establish the social system for ensuring IP handling and traceability in the distribution process as a prerequisite for labelling.

**PLEDGES** to establish consumer rights in food safety and safeguard consumer health, by intensifying efforts to:

1. take initiatives so that consumer health becomes a priority in food standard setting organisations;
2. strengthen the international exchange of information and consultation among co-operatives on the various topics concerning food safety.

## The Co-operative Advantage

*Submitted by the ICA Board*

**This General Assembly, meeting in Seoul in October 2001**,

**NOTES** the timely focus on attention given to membership of co-operatives by the presentation at the Quebec Congress in 1999, and

**RECOGNISING** the opportunities that exist in today's world for the application of Co-operative Principles and the organisational form in helping solve the problems of poverty, health, unemployment and other social ills,

**URGES** member organisations to give renewed attention to the way in which they can promote the "co-operative advantage" in their communities based on practical examples being followed by other co-operatives, and

**REQUESTS** that the importance of membership be acknowledged, and consequently be a feature of all development activities.

## Democracy and Peace

*Submitted by the ICA Board*

**The ICA General Assembly,**

**NOTING** that the greatest threats to democracy and peace are cultural and religious conflicts, social exclusion and concentration of wealth,

**RECOGNISING** that co-operatives from all sectors and in countries around the world are generating jobs and, thus combating social and ethnic exclusion; as well as bringing together individuals who are individually weak into enterprises through which and through their strength are capable to face the wealth concentration,

**REAFFIRMING** that for these reasons, co-operatives are the perfect allies of governments to defend democracy and peace,

**CALLS ON** members to reaffirm their commitment to democracy and peace, to give greater visibility to the role of co-operatives in defending democracy and peace in a global economy and to include the phrase, "Co-operatives: Democracy and Peace" on their letterhead, envelopes and other official papers.

## Co-operative Policy and Legislation

*Submitted by the ICA Board*

**The ICA General Assembly,**

**NOTES** the importance of appropriate national and local co-operative policies and legislation for the establishment and development of co-operatives,

**RECOGNISES** the significant efforts of the ICA in working with international bodies to promote better understanding of co-operatives and ensuring that policy and legislation does not hinder co-operatives' ability to serve their membership,

**COMMENDS** the International Labour Office (ILO) and the United Nations (UN) for their efforts in putting forward policy statements and documents that will assist governments to better understand the role and of co-operatives and the government – co-operative relationship,

**FURTHER COMMENDS** the ICA for its support to co-operative legislative issues and endorses the Guidelines for Co-operative Legislation,

**COMMITS ICA** on behalf of and with the active participation of member organisations to continue its work with the ILO and UN in the formulation, finalisation and implementation of policy instruments on co-operatives including the revision of ILO Recommendation 127. This should be done through a specific working group, representative of ICA member organisations and specialised bodies.

**CALLS ON** each ICA member organisation to take contact with their government to ensure that they aware of the initiatives taken by the ILO and UN with regard to co-operatives and that they support the following:

1. The definition of a co-operative as: 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise';
2. The recognition of the Co-operative Values and Principles with special emphasis on the fact that co-operatives are autonomous, self-help organisations controlled by their members;
3. Governmental policies should create enabling environments to enable the growth of co-operatives taking into consideration the special character of the co-operative model of enterprise, its goals and contributions to the economic and social development of local communities and countries;
4. Governments should in collaboration with co-operative organisations identify and remove obstacles that persist and do not allow co-operatives to compete on a real equal footing with other forms of enterprise.

## .coop

*Submitted by the ICA Board*

The ICA General Assembly,

**WELCOMES** the introduction on a new top-level Internet domain name that is restricted for the use of co-operatives,

**EXPRESSES** its appreciation to the National Co-operative Business Association (NCBA) of the United States for the significant efforts taken to obtain .coop for the use and benefit of the world co-operative movement,

**RECOGNISES** the effective partnership between ICA and NCBA in the start-up phases of .coop,

**WELCOMES** a continued active and leading role of the ICA in partnership with NCBA in the development and governance of .coop and its Digital Divide Fund,

**CALLS ON** all co-operatives within the ICA membership and their associated members to register domain names under .coop to promote their co-operative identity and take advantage of the opportunities that .coop will provide to co-operatives to improve their business efficiency, to have access to products developed specifically for the co-operative market , and to support the creation of a Digital Divide Fund for co-operatives to assist co-operatives in their technological growth.

## The Rio Co-operative Declaration

*Submitted by the ICA Board*

**The ICA General Assembly,**

**AWARE** of the support mobilised by ICA members for the Rio Co-operative Declaration of December 2000 which underlines the commitment of co-operatives to contribute to creating a more just, transparent and democratic society in which peace, social justice and respect for the environment reign,

**REAFFIRMS** ICA's commitment to rally the support of millions of members of co-operatives in the quest for peace, solidarity, equity, justice, equality, environmental protection and sustainable development.

**AGREES** that the Declaration be formally transmitted to the United Nations to convey to the world community the commitment of the co-operative movement to contribute to a more equitable social, political and economic world order, inspired by the co-operative principles and values.

THE RIO DECLARATION

The International Co-operative Alliance, meeting at RIOCOOP 2000, (3-7 December 2000), under the banner of 'Co-operative identity for the new millennium', noted

***Whilst being aware of:***

- The situation in which millions of human beings live who are afflicted by poverty, by a lack of employment, lack of adequate housing and by inadequate social welfare systems due to the concentration of wealth, and social exclusion;
- The growing violence due to arms transfers that worsens social conditions as stressed by the International Code of Conduct, initiated by the Commission of Nobel Peace Laureates;
- The serious degradation of the environment that limits the possibility of life for the present generation and for those not yet born, and that threatens the planet that is our only home; and
- The absence of solidarity that characterises this era with the proliferation of anti- social attitudes and conduct with impunity, and that generates public and private corruption, actors which pose an imminent danger to democratic society.

***Declared:***

1. Its willingness and capacity to contribute for a more just, transparent and democratic society as testified by the daily activities carried out by co-operatives all over the world;
2. Its interest in exhorting governments, political parties, organisations of civil society, and all people who love peace to join forces to fight for the reduction of weapons and the elimination of violence, and to struggle for social justice. We reaffirm at the same time, our disposition as a world organisation to work to generate more employment and decent shelter and to reduce social exclusion;
3. Its willingness to build a society in harmony with nature;
4. Its desire that the co-operative organisation shall continue to contribute to a more equitable social, political and economic world order, inspired by the co-operative principles and values, thereby giving effective support to democratic society; and that,
5. The International Co-operative Alliance assumes the commitment to rally the support of millions of members of co-operatives in the quest for peace, solidarity, equity, justice, equality, environmental protection and sustainable development.

# Research Conference Papers

# Making Sense of Co-operative Governance: Competing Models and Tensions

**by Chris Cornforth***

## Introduction

This paper focuses on how co-operatives and mutual associations are governed. At the heart of these arrangements is an organisation's governing body or board. Paralleling developments in the private sector, the quality of governance of co-operatives has been questioned. Serious concerns have been raised both about the democratic legitimacy of boards and their effectiveness, for example the ability of lay board members to effectively supervise senior managers, ensure probity and protect the interests of members and other relevant stakeholders[1].

These concerns have led to renewed professional and academic interest in organisational governance and a growing body of literature and advice.

Much of this literature is prescriptive in nature and aimed at addressing the perceived shortcomings of governing bodies. However, it has been criticised for oversimplifying the problems, underestimating the conflicting demands and pressures that board members face, and presenting solutions that are difficult to implement in practice. These shortcomings point to the need for a greater understanding of the way boards work that is grounded in studies of board behaviour. This paper attempts to address this problem by presenting a new framework for understanding the governance of co-operatives in terms

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of multiple theoretical perspectives and a number of key paradoxes or tensions that boards face. The paper addresses two related problems.

First, the governance of co-operatives and mutuals is relatively under theorised. In contrast a variety of competing theories have been proposed to try to understand the role of boards in the private sector. The paper briefly reviews each of these theories and discusses how they can be usefully extended to throw light on the boards of co-operatives.

However, this raises a second related problem. Taken individually the different theories are rather one dimensional, only illuminating a particular aspect of the board's role. This has led to calls for a new framework that can help to integrate the insights of these different perspectives[2]. The paper argues that rather than choose between these different theories we need to find a way of drawing on the different insights they offer. It argues that, taken together, these theories are helpful in highlighting some of the important tensions and paradoxes that boards face, and which they must find ways of managing if they are to be successful. Based on this framework the paper outlines some of these key tensions:

- The tension between board members acting as representatives for particular stakeholder groups and 'experts' charged with driving the performance of the organisation forward.
- The tension between the board roles of driving organisational performance and ensuring conformance, i.e. that the organisation behaves in an accountable and prudent manner.
- The tension between boards having to both control and support management.
- The tensions and conflicts that stem from accountabilities to multiple stakeholders.

## Competing Perspectives on Boards

A variety of competing theories have been proposed to try to understand the role of boards in the private sector. Each implies a different model of how boards work and who should serve on them. Below each of these theoretical perspectives and associated models is briefly examined and how they can be usefully extended to throw light on the role of co-operative boards. However, we begin by looking at the democratic perspective on boards, which provides the dominant model on the role and practices of boards in co-operatives and mutual associations.

## A democratic or association perspective – a democratic model

Democratic ideas and practices have been central to thinking about the governance of co-operatives and mutual associations. Democratic government is a central institution in Western societies. Key ideas and practices include: open elections on the basis of one person one vote; pluralism, i.e. that representatives will represent different interests; accountability to the electorate; the separation of elected members, who make policy, from the

executive, who implement policy decisions. Many of these ideas are embodied in principles underlying the governance of co-operatives.

A democratic perspective on governance suggests that the job of the board is to represent the interests of the co-operative's members. The role of the board is to resolve or choose between the interests of different groups and set the overall policy of the organisation, which can then be implemented by staff. Central to this view is the idea of a lay or non-professional board, where any member can put himself or herself forward for election as a board member. Expertise is not a central requirement, as it is in the partnership model of the board we shall discuss below.

## Agency theory – a compliance model

Agency theory has been the dominant theory of the corporation and corporate governance arrangements in the private sector[3]. It assumes that the owners of an enterprise and those that manage it (their agents) will have different interests. Hence the owners or shareholders of any enterprise face a problem that managers are likely to act in their own interests rather than to their benefit. While free markets are seen as the best restraint on managerial discretion, agency theory sees corporate governance arrangements as another means to ensure that management acts in the best interests of shareholders. This suggests that a majority of board members should be independent of management, and that their primary role is one of ensuring managerial compliance – i.e. to monitor and if necessary control the behaviour of management to ensure it acts in the shareholders best interests. This model can be quite easily extended to co-operatives and suggests similarly that the main role of the board is to ensure managers act in the interests of the co-operative's members.

## Stewardship theory – a partnership model

Stewardship theory is grounded in a human relations perspective and starts from opposite assumptions to agency theory[4]. It assumes that managers want to do a good job and will act as effective stewards of an organisation's resources. As a result senior management and the 'owners' of the organisation are better seen as partners. Hence, the main function of the board is not to ensure managerial compliance or conformance, but to work with management to improve organisational performance. The role of the board is primarily strategic, to add value to top decisions.

In this context it is not surprising that management ideas and practices should be applied to governance. From this perspective board members should be selected on the basis of their expertise and contacts so that they are in a position to add value to the organisation's decisions; boards and managers should receive proper induction and training; they should know how to operate effectively as a team etc. Ideas such as these are common in much of the 'how-to-do-it' literature on boards. For co-operatives this raises the question: how can boards have the necessary expertise when their members are elected?

### Resource dependency theory – a co-optationmodel

Resource dependency theory views organisations as interdependent with their environment[5]. Organisations depend crucially for their survival on other organisations and actors for resources. As a result they need to find ways of managing this dependence and ensuring they get the resources and information they need. From this perspective the board is seen as one means of reducing uncertainty by creating influential links between organisations through for example interlocking directorates.

The main functions of the board are to maintain good relations with key external stakeholders in order to ensure the flow of resources into and from the organisation, and to help the organisation respond to external change. Board members are selected for the important external links and knowledge they can bring to the organisation, and to try to co-opt potential external threats. Again this raises an issue for co-operatives when board members are elected.

### Stakeholder theory – a stakeholder model

Stakeholder theory is based on the premise that organisations should be responsible to a range of groups (or stakeholders) in society other than just an organisation's owners, or in the case of a co-operative its members[6]. By incorporating different stake-holders on boards, it is expected that organisations will be more likely to respond to broader social interests than the narrow interests of one group. This leads to a political role for boards negotiating and resolving the potentially conflicting interests of different stakeholder groups in order to determine the objectives of the organisation and set policy. For co-operatives this raises the question how should the interests of other important stakeholders besides members be represented.

### Managerial hegemony theory – a 'rubber stamp' model

Managerial hegemony theory relates to the thesis that although shareholders may legally own and control large corporations they no longer effectively control them, control having been effectively ceded to a new professional managerial class. From this perspective the board ends up as little more than a 'rubber stamp' for management's decisions. Its function is essentially symbolic - to legitimise management's actions.

Although this theory was developed in the study of large business corporations, many of the processes it describes seem just as relevant to co-operatives: for example the separation of a co-operative's members from those that manage it, and the increasing growth and professionalisation of management. This raises the question for all organisations including co-operatives: what can be done to ensure boards are able to exercise real power and influence when required?

### Paradoxes and Tensions Boards Face

Taken individually these different theories are rather one dimensional, and can be criticised for only

illuminating a particular aspect of the board's work. This has led to calls for a new conceptual framework that can help to integrate the insights of these different perspectives. A paradox perspective offers a promising approach to providing this new conceptual framework. Taken together these multiple theoretical perspectives are helpful in highlighting some of the important paradoxes and tensions that boards face.

## Who governs? - the tension between 'lay' and professional boards

The different models have different implications for who should serve on boards. The opposition is clearest between the partnership and democratic models. The partnership model stresses that board members should have expertise and experience that can add value to the performance of the organisation. The implication is that board members should be selected for their professional expertise and skills. In contrast, the democratic model on which co-operatives are based stresses that board members are lay representatives there to serve members they represent. Other models suggest board members should be selected because of their contacts and experience or because they represent stakeholder interests. Co-operatives need to consider how they can best manage these tensions. How can the expertise, experience or contacts of boards be increased without undermining democratic principles? A variety of options are available. For example, can more be done to encourage members with relevant expertise and experience to stand for election? Are there procedures to induct and develop new board members? Is training available for board members? Can co-options be used to bring missing skills, experience or contacts on to the board? Can other consultative forums be developed to make sure that other stakeholders' views are considered?

## Board roles - the tension between the conformance and performance

The different theories of governance put different emphasis on what are the main roles of the board. This is most apparent in the opposition between the agency and stewardship perspectives. What Garratt has called the 'conformance' versus 'perfor-mance' role of boards[7].

The compliance model emphasises the conformance role of the board to ensure that the organisation acts in the interests of its 'owners' and to be a careful steward of their resources. In contrast the partnership model emphasises the role of the board in driving forward organisational performance through adding value to the organisation's strategy and top decisions. Combining these roles can create difficult tensions for boards, as they demand very different kinds of attitudes and behaviour from board members. The conformance role demands careful monitoring and scrutiny of the organisation's past performance and is risk averse. The performance role demands forward vision, an understanding of the organisation and its environment and perhaps a greater willingness to take risks. Strategies for dealing with this

tension include separating out different aspects of the board role over time through an annual cycle of meetings, the careful management of board agendas and skilful chairing of meetings. In particular it is often wise for boards to set aside periodic meetings free from routine items of business to focus on longer-term strategic issues with management.

### Relationships with management – the tension between controlling and partnering

The agency and democratic perspectives stress the importance of the board monitoring and controlling the work of managers (the executive). In contrast stewardship theory stresses the role of the board as a partner to management, improving top management decision-making. The need to both control senior management and be their support and partner in decision making can be a source of role conflict and tension for board members. One way board members sometimes find it useful to think about their role is as a 'critical friend' to management.

Another related tension facing boards and management concerns the lack of a clear boundary between their respective roles. The complex and interdependent nature of manage-ment and board roles offers plenty of scope for different interpretations of the relationship and conflict. Boards are frequently accused of meddling in the organisation's work or not being involved enough. An important means of helping to establish a productive working relationship with management is through regular discussion and negotiation over respective roles and responsibilities.

### Multiple or ambiguous accountability

There may be tension concerning to whom board members are accountable. Formally, co-operatives are accountable to their members. However, a stakeholder perspective suggests that there are likely to be other stakeholders who have a legitimate interest in what the organisation does, and should in some way be able to hold it to account. Board members may experience tension because they feel accountable to more than one group, or because they are unclear or differ over to whom they feel they are accountable. An important exercise for any board and management team is to periodically review who it feels its main stakeholders are, and how their views are taken into account.

### Conclusions

The paper has shown how existing theories of corporate governance can be extended to help understand the governance of co-operatives, but that by themself each is too one-dimensional, only highlighting particular aspects of the board's role. The paper argues that it is better to draw on the insights that each model offers rather than choose between them. As empirical research suggests, governance is an inherently difficult and problematic activity. Taken together the different models highlight the important tensions and paradoxes boards face, which successful boards will need to learn how to manage.

***ENDNOTES***

[1] See Review of International Co-operation, 89, 4, 1996, which examined corporate governance and control in co-operatives.

[2] See Hung, H. (1998) 'A typology or theories of the roles of governing boards', Corporate Governance, 6, 2, 101-111, and Tricker, B. (2000) 'Editorial - Corporate Governance - the subject whose time has come', Corporate Governance, 8, 4, 289-296.

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# Social Cohesion, Governance and the Development of Health and Social Care Co-operatives: Preliminary Observations

**by Jean-Pierre Girard***

## Introduction

Significant growth in health and social care co-operatives (HSCCs) has occurred in the Canadian province of Québec, which accounts for 7 million inhabitants in a country of 32 million people. The emergence of these HSCCs represents important societal issues, namely social cohesion and self-governance.

After a description of the 1997 United Nations (UN) classification of HSCCs, this paper reports preliminary observations.

It focuses on institutional and organisational innovation in HSCCs in Québec and concludes by identifying the major challenges that lie ahead. The paper is essentially based on a description of HSSCs in Québec published in 2000 (Girard and Garon, 2000).

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## Recent HSCC Development

The 1960s saw a strong nationalist revolution among Québec's French speaking people. This led to a situation where the state intervened and assumed control of many civic institutions. Community health services were literally swallowed up by the state and replaced by a provincial network of public clinics, the Centres locaux de services communautaires (CLSC).

The rise in public debt and financial realities of the 1980s threatened the state's ability to provide adequate

services, even though 35 per cent of state spending was related to health and social services. By the 1990s, although the principle of universal health coverage for all citizens as mandated by Canadian law - what is referred as the Beveridge system - was not threatened, the extent of services available and access to them reduced. This situation was reflected in important cuts in human resources involving nursing staff, merger trends, and a decrease in the number of public health delivery facilities like CLSCs and hospitals. The situation led to a renewed public interest in health care issues. As a result, a new leadership class emerged from different social organisations and sometimes from trade unions to create some 60 co-operatives which are involved directly or indirectly in health care. It is estimated that these co-operatives currently have more than 30,000 members, with up to 3,000 full-time employees. There are varying types of co-operative membership structure for different health care activities.

This article uses the classification system developed by the UN for describing different HSCCs following its 1995-1997 worldwide study (United Nations, 1997).

The classification system describes all the different types of co-operatives and their activities, although this article focuses only on those whose businesses are primarily related to health and social care.

Since 1997, the provincial legislators have authorised the creation of multi-

**Co-operatives in the health and social care sector**
**Québec 2002**[1]

| ***Field of activities*** | ***Types of co-operatives (number)*** |
|---|---|
| Health service co-operatives | ***Users***<br>* Health service co-operatives (5)<br>* Solidarity (Multi-stakeholders)<br>* Nurses co-operative (1)<br>***Workers***<br>* Alternative medecine co-operative (1)<br>* Ambulance technicians co-operatives (5)<br>* Extended care co-operative[2] (1) |
| Social services co-operatives | ***Users***<br>* Home service co-operatives (11)<br>***Solidarity (Multi-stakeholders)***<br>* Home service co-operatives (29)<br>***Workers***<br>* Home service co-operatives (3) |

stakeholder co-operatives which, in Québec, are known as solidarity co-operatives. Drawing from examples currently seen in Spain and Italy, this legislation enables the establishment of co-operatives with three types of members: users, workers and individuals or organisations sharing the raison d'être of the co-operative. This concept for co-operatives is sound from the perspective of social cohesion and self-governance.

One example are social care co-operatives, which are involved mainly in providing domestic and maintenance services for the house-bound elderly and, to a lesser extent, with assistance and health care. These have substantially benefited from extensive government support through a fiscal initiative programme which began in 1997.

This government support is aimed at creating new jobs, particularly among the unemployed, while attempting to eliminate tax-free illegal employment. When organised into a provincial federation, these co-operatives also benefit from the support of Mouvement des caisses Desjardins (the single largest financial services co-operative organisation in Québec). Support ranges from volunteers on the board of directors to an agreement for mutual promotion.

In less than six years, these co-operatives have created more than 2,500 full-time jobs and have an annual business turnover of around US$ 18 million. They have more than 20,000 members[3] and control 50 per cent of the non-profit organisations' home services market (Fédérations, 2002).

Another example is co-operatives involving ambulance technicians and extended care facilities for geriatric patients, which were initially created by trade union initiatives. These co-operatives have kept strong union ties and are essentially financed by public funds.

Apart from the above, all other co-operatives providing direct health care services and home services for the elderly have had to deal with occasional opposition from public sector unions and/or public institutions in the health sector. The co-operatives are criticised for the possibility of job substitution and the risk of accelerating privatisation in the health care industry. This, ironically, is increasing, with numerous private for-profit health clinics being established by doctors and big retail drugstores.

The practical significance of this opposition co-operatives is:

1. The need to have a very strong leadership, gathering different social actors with roots in order to set-up and manage the co-operative;
2. A step-by-step development strategy, for not everyone seems to be ready to respond to the needs of the members.

A further significant challenge for health care co-operatives is the ability to recruit physicians to serve in rural localities[4]. This problem appears to be universal.

## Creativity Under Pressure

Co-operatives have faced significant oppositions from various sources, as mentioned earlier, they can still provide practical answers to the health and

social needs of the public by creative innovation from the grass roots level to the leadership of the community. Three examples are cited below:

*Coopératives de services de santé Les Grès (1995)*

This is the oldest health care co-operative, initially provided medical services with innovative methods for 4,000 inhabitants in the village where it was founded. However, six years of progress resulted in a medical clinic with a volume of 15,000 medical records covering the neighbouring regions, which over-burdened the existing facilities. The co-operative responded by opening a health care services centre 20 kilometres away and is planning to do so again elsewhere in the region. For the last year, this co-operative has also managed a multi-unit home for the elderly. It is important to stress that the co-operative benefited from strong support from the local municipal administration, a tax break.

*Coopérative de la Rive-Sud (1992) et Coopérative Multi-services (1998)*

The Coopérative de la Rive-Sud, one of the oldest home services co-operatives, has actively helped to set up a nursing care co-operative, Co-opérative Multi-services. This co-operative provides nursing services to the elderly as well as to members of the home services co-operative. It has been structured as a multi-stakeholder (solidarity) co-operative and was therefore closely linked to the local college. This link provides student nurses with an opportunity for practical training and a milieu to mix training and job creation under the co-operative umbrella.

*Coopérative l'Islet nord-sud (1998)*

This home services co-operative, located in a rural area, responded to the concerns of its members who were worried about having to move to an urban care home. It collaborated with the Desjardins financial services co-operative and purchased a building to operate as a local extended care home, obviating the need for its members to leave their community. They are doing the same thing elsewhere in the region. Recently, they started positive collaboration with the public health administration in order to rent space in these homes for health services including local doctors.

## Social Cohesion and Governance : Operational Definitions and Preliminary Observations

In social science and management research there has been much discussion about the meaning of social cohesion and governance. The following definitions make a good attempt to analyse the impact of co-operative membership on social cohesion and governance. In the first example, the social cohesion definition comes from important current Canadian research on the impact of co-operative membership on social cohesion. Social cohesion is about a *question of identities or reference to membership: citizenship in a state, residency in a geographic community, participation in an organisation (Fairbairn 2001).*

Governance, for the Canadian Institute on Governance, means *the structures, functions (responsibilities), processes (practices) and organi-sational*

*traditions used to ensure the accomplishment of the organisational mission. These determine how power is exercised, how decisions are taken, how stakeholders have their say and how decision-makers are held to account in the health care system.*

The configuration and development of HSCCs in Québec since 1990 has to be considered in the light of the above definitions. The extensive and intensive development of co-operatives seems to be an interesting way of reinforcing social cohesion. This important characteristic has helped co-operatives to increase membership and offer additional services. It has also helped in the essential task of providing a roof for the elderly who want to stay in their local community. The practice of social cohesion has triumphed despite a hostile environment created by unions and some public health administrations. By the participation of customers (users, patients) in the identification of goals and the planning of HSCC activities, social cohesion will be strengthened. Formal citizen involvement on the boards of public agencies, such as hospitals and clinics, is far from the ideal of true participation and generally only serves as a kind of rubber stamp for a standardised and non-innovative approach under a very strict bureaucratic control.

From a governance perspective, on the co-operative side, if every member played an active role on the board of directors, with meaningful dialogue and mutual respect, there would be a positive dynamic relationship between all the parties involved. In this way, it would help to counterbalance the typical asym-metrical information pattern seen in the average patient versus health care professional interaction. The system of self-governance would allow a degree of autonomy and self-reliance. This state of affairs is best depicted by the following extract from the UN report:

> *By means of controlling their own business enterprises, groups of citizens no longer have to rely upon either public agencies over which they have no control or for-profit enterprises for whose services they have to pay. The commitment to sustainability and a continued presence differentiates the co-operative enterprises from those governed by considerations of investor satisfaction, which can shut down or relocate in response to processes entirely external to the community (United Nations, 1997).*

The above model is not theoretical but has actually succeded, as the UN report shows, in a number of cases, including the Group Health Co-operative of Puget Sound (Washington, USA) which has functioned for 50 years.

Returning to Québec, it is clear from previous examples that when both grass roots members and community leaders understand the need for health care reforms, a creative working solution becomes tenable through the principle of self-governance.

This approach lends itself to a collective effort in achieving a solution, in contrast to the non-innovative modus operandi adopted by public organisations. Furthermore, the creation of HSCCs has also led to innovative methods for fund

raising (a mix of funds from different sources) which is very original. This is another topic for discussion which should be addressed in the near future.

In order to have a common vision of the future of HSCCs and their place in society, and to avoid radical criticism from different social actors, many co-operative development organisations and co-operative councils, including the Québec apex organisation Conseil de la coopération du Québec, adopted a statement a few years ago about the place of the co-operative in the health care system. In a few words:

> *The state maintains central responsibility for financing and regulating health care services. In this sense, universal access to health care must not be placed in question. Provision of services must not be motivated by profit but rather by the interests of users and the respect and recognition of health care professionals;*
>
> *The co-operative formula in the area of health care service has proved to be an organisational model allowing for strong sensitivity to the needs of different milieu, showing adaptativeness and promoting responsible action on the part of users and providers. The community co-operative model could allow a new and productive balance among all concerned…*
>
> *The development of health care sector co-operatives is a result of people from diverse backgrounds expressing their will to seek solutions to their needs for access and control of health services. In projects to create co-operatives, it will be relevant to have partnership with public organisations (Girard, 2000).*

On the evidence of preliminary observations, this paper suggests that the characteristics of social cohesion and self-governance can provide creative and innovative solutions for emerging needs. The concept hinges on a partnership for health care reform. This has become more apparent following a recent report on public health spending and the call for a more open-minded approach among public health organisations and administrations for co-operative development (Groupe, 1999). Time will be a good indicator of whether this desire for complementary action between public and co-operative organisations in the field of health and social care sector is acted upon.

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*FOOTNOTES*

1. Adaptation (updated data) from Girard and Garon, 2000.
2. This co-operative also developed a nursing service.
3. Those co-ops offer services to non-members.
4. Essentially, the reason behind this is a significant cut in the admission of new students into the medicine faculty.

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# The Relationship between the State and Co-operative Sector in Korea: The Resource Dependency Perspective

**by Junki Kim***

## Introduction

Co-operatives only became a significant and ubiquitous part of Korea in the very recent past: in the early 1950s there were just a handful of mainly farming and credit co-operatives; today there are over 7,100 co-operatives with over 13.7 million members (Jang and Yuck, 1997). Most of this growth took place after 1970 when the government actively sought to develop the economy based on its long-term economic planning. Thus, understanding the relationship between the state and co-operatives is essential in order to grasp the nature of the co-operative sector.

Understanding the institutional relationship is, however, a daunting task. Not only are there as many types of relationships as there are governments and co-operatives, but the

specific relationship unique to each pair changes over time through mutual exchanges and interactions. Although relations between governments and co-operatives are increasingly recognised as necessary and inevitable for the well-being of society, the theoretical frameworks that examine these relations have developed only partially (Torgerson et al., 1997). Take away these conceptual models and there is a tendency for students of co-operatives to oversimplify the otherwise complex relationship.

We argue that the relationship between

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government and co-operative is one of close co-operation and that the government has been heavily involved in the operations of co-operatives. The long tradition of state-led industrialisation in Korea has placed a heavy emphasis on the government's role in society. The state has expanded its influence not only in the market sector but also in the voluntary sector, which includes co-operatives. Many people, including those involved in co-operatives, have argued that the state should focus more on 'fostering' or 'initiating' civil society rather than 'securing' or 'achieving' it through a natural process. Implicit in this argument is the 'resource dependent' view, which argues that co-operation between the government and non-governmental organisations (NGOs) can be justified and should be reinforced as the two tend to complement each other. Further, the debate is bolstered by Salamon's (1987) theory on 'the voluntary sector failure', which argues that the ineffectiveness of voluntary organisations, largely due to their limited resources and lack of expertise, can be remedied by the state's aid. These views suggest that the government should play a more active role in providing necessary resources for co-operatives.

In terms of the organisation of the paper, we first examine various economic theories of co-operatives, looking at both demand and supply-side explanations as well as normative and positive approaches to the theories of co-operatives. We then look at whether the evolution of the co-operative movements in Korea corresponds to normative or positive approaches. Based on the theories of co-operatives pertinent to the Korean case, we examine the state/co-operative relationship based on the resource dependency perspective.

This involves analysing the resources each economic actor possesses that can be used to influence the exchange relationship between the two. We also examine how the state/co-operative relationship has evolved over the years and analyse factors that are likely to influence the future of this relationship in Korea.

## Intermediate Organisations and Co-operatives

We are living in a mixed economy where economic activities are conducted by various types of organisations as well as individuals. For reasons stipulated by Coase (1960), it makes sense to conduct transactions within an organisation. Organisations come in different shapes and forms. One of these is 'intermediate organisations' (IOs), which lie between the state and the for-profit sector.

The term IOs is a more inclusive concept than non-profit organisations (NPOs) and it therefore includes organisations such as churches, advocacy bodies, non-profit private welfare agencies, agricultural co-operatives, credit unions and consumer co-operatives, as well as other member-serving organisations and quangos (quasi-NGOs).

Ware (1989) stated that IOs are 'organisations which in law are private institutions but which take a legal status

that prevents the distribution of any profits they might take' (p.1).

This, however, has a limitation in that it does not define precisely the meaning of 'private', or whether the term includes funding and other state involvement. In Figure 1, four legal types of IOs are illustrated. First there are charitable organisations involved in mainly philanthropic activities. Second there are organisations set up to promote the mutual interests of members, including consumer, farmer and credit-related co-operatives as well as trade unions. Third there are overtly political organisations. Although many organisations listed in Figure 1 are engaged in political activities, especially those advocacy groups, 'political organisations' here refers to those that take a legal status as political institutions and, hence, are subject to appropriate regulation on political activities. Finally, there are associations forming three types of groups: professional and scholarly bodies that are run as mutual benefit voluntary organisations, legally charitable voluntary associations and non-charitable non-mutual voluntary associations.

Although the paper has divided IOs into four categories, there are complexities arising from their distinct legal status as well as their purposes and objectives. In addition, complexities arise when one attempts to separate 'private' from 'public' organisations. This is because there are a number of different dimensions along which we can seek to distinguish 'private' from 'public', such as dimensions based on ownership, governance structure, objective function and allocation mechanism (Lane, 1985). However, we need to avoid the trap of defining IOs as those gray organisations that are neither 'private' nor 'public' bodies. This is because in doing so, we lose distinctive features relevant to those organisations. Thus, for operational purposes, IOs are defined as private institutions in terms of their legal status, which may or may not be autonomous from state influence, and distinguishable from for-profit organisations. As Ware (1989) mentions, the fact that they are registered as a private institution does not imply that they have policy autonomy from the state.

Figure 2 attempts to distinguish many types of economic institution according to their ownership structure and income sources. In terms of ownership structure, there are state-owned agencies or enterprises, non-owned private organisations, non-profit distributing privately-owned organisations and privately-owned profit-distributing organisations. IOs are those in the middle that are not owned by the state, that are not profit-distributing organisations but which may or may not be owned by members.

In terms of the dimensions of 'private' and 'public', based on the criteria of their sources of income, IOs refer to those organisations that rely on donations, subscriptions and other non-tax and non-commercial contributions from members. If we were to take this distinctive aspect of IOs, they would be a very small category since we would now eliminate those institutions that rely on the state and commercial

activities for their income.

The shaded area in Figure 2 therefore represents key characteristics of IOs based on ownership and income source but omits many types of economic institutions that are often regarded as non-state and non-market organisations. This implies that our definition of IOs should be more inclusive, extending to those that are private institutions, rely mainly on self-generated non-commercial income and are non-profit distributing organisations.

In addition, Ware (1989) identifies the following principal areas in which IOs operate: acting as a countervailing power to the state and/or the market; allowing citizens to participate in the public decision-making process; providing 'non-market' goods such as facilities for religious observation, basic research, and works of art; providing goods or services more safely than a for-profit organisation; providing goods and services more effectively; facilitating social and political integration; facilitating diversity of opinion in society; and mobilising interests and demands within society

Where then do co-operatives fit in, both in terms of their ownership and their income source? It helps to use the ICA definition: a co-operative is 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise' (ICA, 1997). However, this is a definition based on a normative approach and in reality many co-operatives do not satisfy all the conditions laid down by the ICA.

In the case of developing nations, for instance, the state might be more closely involved in the workings of co-operatives and hence control the decision-making process, while some may say that co-operatives in developed countries are better explained by the market failure approach. In examining theories about co-operatives, we must first look into the normative explanations that seek to explain why co-operatives exist in a free-enterprise economy.

This approach attempts to define when and how co-operatives come into existence. It is the 'demand-side' explanation. The positive theory of co-operatives, viewing them from a public choice perspective, seeks to explain how the scope, range, and form of co-operatives are shaped by the behaviour of self-interested individuals and governments who interact with each other in a variety of non-market political institutions. This positive approach is also known as the 'supply-side' explanation.

These two perspectives are often seen as presenting a somewhat conflicting role for co-operatives and therefore portray a contrasting relationship between the state and co-operatives. According to the normative view, co-operatives have emerged as substitutes for the state and the market and are seen as an economically legitimate expression of demands that would otherwise fail to be met by voluntary exchanges. In contrast, the positive model of co-operatives, based on the tradition of public choice, argues that decisions emerge from something other

**Figure 1: Typology of the distinction between 'public' and 'private' in relation to two dimensions – ownership and sources of income (Ware, 1989).**

| | | Public | Ownership | | Private |
|---|---|---|---|---|---|
| | | State-owned agencies | Unowned private organisations | Non-profit distributing privately-owned | Privately owned profit-organisation |
| **Public** | Taxes of ransfers from tax originating income | | | | |
| **Source of Income** | Donations, Subscriptions and other mnon-tax, no-commercial income | | | | |
| **Private** | Sales of goods and services | | | | |

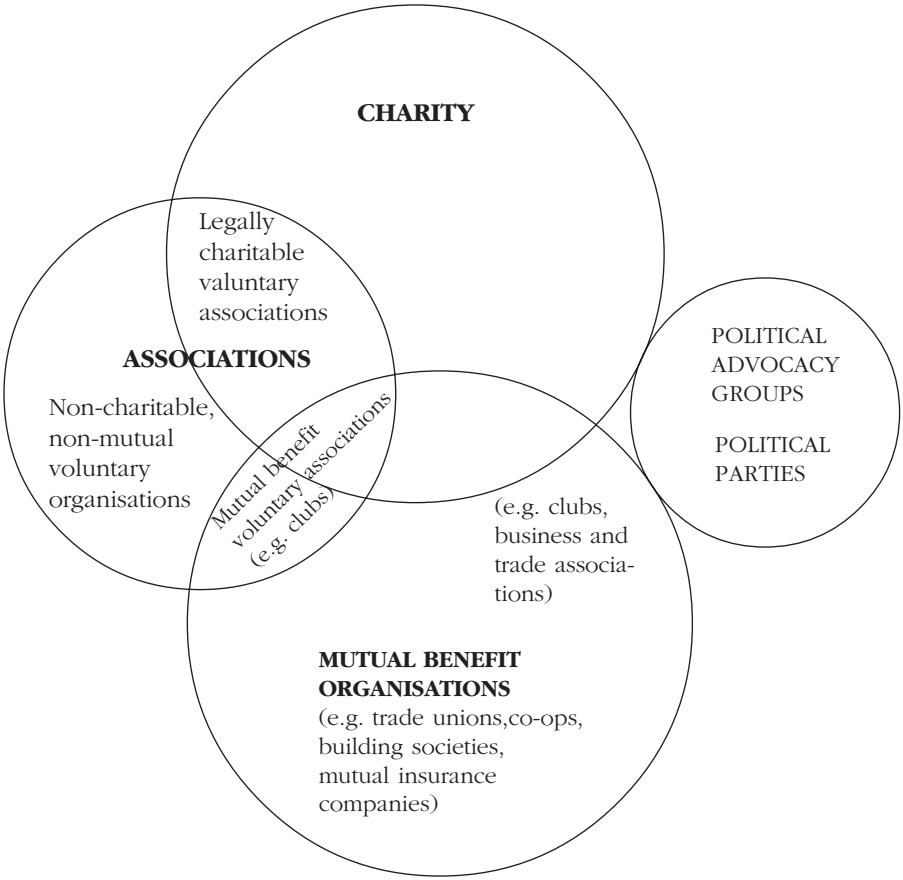
than voluntary market exchange.

This is seen as creating an environment in which adjustments in the allocation of resources tend to reflect the self-interest of organised political groups, politicians and government officials when addressing the failures of voluntary exchange.

### 1. Normative (demand-side) explanations

According to the demand-side explanation, prevailing failures or deficiencies in the market due to the marginal nature of the market in question force groups of individuals to get together and form an economic institution to remedy these market failures. Thus, co-operatives have emerged as substitutes for the state and the market. We have witnessed many accounts and instances of deficiencies of the market and this is when co-operatives and more generally intermediate organisations come into play. When the state fails to provide

**Figure 2: Changing Government-NGO Relationship**




sufficient public goods, minimum basic needs, democratic rights and minority rights, voluntary (intermediate) associations move in.

Rural areas are characterised by imperfect markets, with low transaction costs within the community but high costs outside. The high transaction costs with the outside world mean rural households face wide price differentials for any commodity that they produce and consume. Geographic and demographic considerations also play an important role in affecting the performance of market institutions. In cases involving market deficiencies or failures, individuals get together because they can mobilise resources which otherwise might not be available to them in the market. Thus sufficient demand exists for new forms of organisations. In addition, other forms of market deficiencies such as asymmetrical information, fragmented oligopolies, lack of formal collaterals and highly covariant risks (Bardhan,

1989) all play an important role in setting up co-operatives.

It is interesting to note that within the community, various exchanges and informal co-operation – with or without monetary and non-monetary considerations – take place, characterised by informal contractual arrangements that are often reciprocal. This implies that the nature of market and non-market transaction depends on the products in question, the actors and organisations involved and the structure of the environment.

In addition, Ware (1989) mentions that even when the possibility of for-profit supply exists, the market mechanism may be too insensitive to provide consumers with exactly the right kinds of goods and services. Co-operatives may also be formed because consumers are faced with a firm that is a position of natural monopoly or has very limited competition. This is how Hansmann (1996) explains the existence of consumer co-operatives. According to this explanation, farming – with homogeneous commodities and numerous producers – is one of most competitive industries, where middlemen and wholesalers who purchase farm products are often highly concentrated and hence have monopsonistic power. Coupled with the seasonality and perishability of agricultural commodities, they can exercise this power to an extreme degree. This situation gives farmers an incentive to form co-operatives through which they can bargain collectively with middlemen.

So far we have concentrated our efforts mainly on explanations of economic self-interest, but there are also non-economic explanations for the existence of co-operatives, namely comradeship. In particular, small local co-operatives come into existence as a way of fostering community spirit. Implicit in the approach of the demand-side explanation are the distinctions placed on various institutional actors. Organisations reflect different incentive schemes and pay-off functions and, accordingly, the state enforces regulation and threats and the market conveys price signals while IOs rely on agreements based on bargaining, co-operation and persuasion. Thus, the theory emphasises the economically distinct and viable features of the co-operative sector.

**2. Positive (supply- side) explanations**

In terms of the positive theory, co-operatives are often created by the state to fulfil its diverse needs. First, co-operatives are used as a state mechanism for development planning. In developing countries, states lack the machinery or tools used to increase agricultural productivity. This is where co-operatives come into play, as supposedly voluntary bodies with a grass roots hierarchy. Second, the state creates co-operatives for political purposes. Because of geographic and demographic issues, the state lacks its own political machinery in the rural areas and co-operatives are useful when they can be used as state propaganda and grass roots organisations. Lastly, govern-ments often see co-operatives as bureaucratic bodies that can be used to implement their programmes and policies.

Another positive explanation is the need for a developing state to balance the growth of the economy by intervening in the affairs of the targeted population. From the transaction costs perspective, it is best to approach this by using communes and co-operatives. In addition, co-operatives offer the added advantage of political control of the masses through umbrella organisations.

## Theories on the Relationship between State and Co-operatives

Over the years, numerous attempts have been made by scholars to describe the changing relationship between the state and the voluntary sector (Young, 1999; Brinkerhoff, 1999; Salamon, 1987). Their work tends to concentrate on either the historical evolution of the relationship (Young, 1999) or the static relationship resulting from contracts to take up services that were previously provided by the state (Kramer & Terrel, 1984). Others concentrate on certain areas of activity where interaction between the two occurs, especially in social welfare services, where remarkable growth has been seen over the years, resulting in the state and the co-operative sector complementing each other, despite the fact that their relationships are focused more on contractual terms (Feldman, 1997; Bebbington, 1997; Nowland-Foreman, 1998).

It is helpful to overview various types of relationship that might arise and we can summarise these into three categories: the supplementary, the complementary and the adversarial relationship. According to the supplementary view, co-operatives are seen as fulfilling demand for public goods left unsatisfied by the state. Private financing of public goods can be expected to have an inverse relationship with government expenditure. This implies that as government retreats in the direct provision of pubic services, more and more voluntary action will be required which in turn increases the role of the voluntary sector and that of co-operatives in general. This view has been put forward by Weisbrod (1977), who argued that the growing diversity of society allowed non-profits and co-operatives to act as an alternative mechanism for providing collective services to those whose interests were not represented in the government.

The complementary view suggests that co-operatives act as a policy instrument for the government, helping it to deliver public goods largely aided by the state in terms of financing and structural assistance. In return, the state erects entry barriers, thereby allowing co-operative monopolies in certain areas of 'public service'.

Finally, according to the adversarial view, co-operatives are largely organised to protect their own interests, which often act against the government. More often than not, co-operatives prod governments to make changes in public policy and to maintain accountability to co-operative members.

## The resource dependency perspective

Our theory builds upon the model of resource dependency (Yuchtman and Seashore, 1967; Aldrich, 1976) where interactions between organisations are assumed to be motivated by the need

to obtain important resources from an environment that consists of other organisations. A stable relationship between two organi-sations implies that each values the other's resources. Aldrich (1979) mentioned that the resource-dependency view can define an inter-organisational relationship where each exchange relationship is described in terms of the relative importance of the resources received and in terms of the substitutability of the resources. By systematically analysing resources that each organisation can offer to the other, we can identify the relative symmetry or asymmetry of exchange relations.

According to Scharpf (1978) and Thompson (1967), the importance of the resource in relation to the total needs of an organisation and the substitutability of the resource are two important factors in determining the dependency relations. First, in exchanges between organisation A and organisation B, if A receives only a small fraction of its resource from B while B relies on A for most of its resource needs, then B is more dependent on A. There are, however, other scholars who have noted that there are two dimensions to the importance of a resource exchange – the relative magnitude of the exchange and the criticality of the resource (Pfeffer and Salancik, 1978).

The latter measures the ability of an organisation to continue functioning in the absence of the resource or in the absence of the market for the resource (Provan and Skinner, 1989). In addition, if the resource in question is difficult to replace in the market, then B's dependency on A is more acute. This is similar to the notion of the concentration of resource control put forward by Pfeffer and Salancik (1978) and Mintz and Cohen (1971). Thus, the more important and more difficult it is to replace the resources, the more an organisation is dependent on the other. Figure 3 summarises the resource dependency relationship between A and B based on these two factors: the importance and the substitutability of the resource. High dependency is characterised by high importance of the resource and low substitutability of the resource, while low dependency is exactly the reverse: low importance and high substitutability. Another possibility is the independent relationship that is characterised by low importance and high substitutability.

Having defined the basics of the relationship, Scharpf (1978) then looks at the exchange relationship between A and B as a whole, by combining the characteristics of A's dependence upon B and of B's dependence upon A, and puts them into 'a typology of comprehensive characteristics including "mutual dependence", "mutual indepen-dence" and "unilateral dependence"'. These overall characteristics of an exchange relationship determine the basis of one organisation's strategy in terms of interacting with the other. Figure 4 summarises the typology of the relationship. There are four types: mutual dependence, co-operative-dominant unilateral dependence, government-dominant unilateral dependence, and mutual independence.

In the case of unilateral dependence, a more dependent organisation will be better motivated to maintain the ongoing exchange relationship than a less dependent organisation. It is likely that the more dominant organisation will exploit this dependency by influencing the activities of the less dominant and the latter will become fully aware of their position by accepting the demands of the stronger. The unilateral dependence relationship facilitates a high likelihood of policy coordination between the parties involved.

The existence of an asymmetric exchange relationship is likely to provide the dominant organisation with power to force its own agenda on the other, even in circumstances where coordination is disadvan-tageous to the less dominant party. Similar to a typical principal-agent setting, the more information that is available about the dependent party and the surrounding environment, the more close control or coordination the dominant organisation will exercise. This is because, armed with precise information, the dominant organisation can impose its objective function on the dependent party.

There are several options for the dependent organisation in this type of unilateral relationship. First, having experienced exploitation by the dominant party, it can seek out alternative sources of supply. For instance, if co-operatives have been reliant upon the state for funding, they will therefore seek alternative sources of funding. Second, the dependent unit may attempt to increase the reciprocal dependence of the dominant unit upon its resources and services, thereby transforming a unilateral dependency into a mutually dependent relationship.

This can be done by increasing the importance of its resources through a 'more precise specialisation upon the needs of the dominant party' (Hanf and Scharpf, 1978: 359).

Because of the dependent unit's effort to transform such a unilateral dependence into a mutually dependent relationship, it is fairly difficult for the dominant unit to maintain unilateral

**Figure 3: Resource Dependency Relationship**

| | | Importance of Resource | |
|---|---|---|---|
| | | High | Low |
| Substitutability of the Resource | High | Low Dependence | Low Independence |
| | Low | High Dependence | Low Dependence |

*Source: Scharpf (1978)*

power unless it can show indifference toward the output of the dependent unit. This is why unilateral-dependence relationships are rare in the long term and they eventually turn into a mutual-dependency relationship.

In the case of mutual dependence, both parties have incentives to maintain a productive ongoing relationship, since the resources are important to both parties and neither has access to alternative providers.

Both parties will be motivated to the exchange relationship and will go to extremes to avoid disruption. This provides excellent conditions for inter-organisational coordination of activities. Although the 'game' between the two parties and thus the resulting relationship depends on the credibility of the strategies used, whether it be an aggressive one or an influential one, the nature of such interaction is limited by its own dependence on the other party in the case of mutual dependence.

There are various types of relationships within the mutual dependence relationship. There might be instances where the seemingly dominant party may have control over monetary resources but is dependent upon human resources or implementation of programmes, since the less dominant unit controls the grass roots organisations. This is analogous to the complementary relationship described by Young (1999) between NGOs and government. Following the partnership view prescribed by Salamon (1995), NGOs are seen as partners with government, helping to deliver public services largely financed by government. Combining the economic theory of public goods and organisations, Young (1999) persuasively explains why NGOs and government engage in a complementary relationship in which government finances and NGOs deliver services.

O'Toole and Montjoy (1984) postulate a typology of interdependence among organisations: pooled, sequential and reciprocal interdependence. Pooled inter-dependence occurs when an organisation involved in a joint project goes about its business without much interaction. In a sequential inter-dependence relationship, the output of one unit is the input of another where they are arranged in an assembly-line fashion. Organisations are reciprocally interdependent when each poses contingencies for the other. The level of interdependence increases from pooled to reciprocal and the need for greater policy coordination also increases with the higher level of interdependence.

On the other hand, a mutually independent relationship is unlikely to facilitate inter-organisational coordination as they see no need to do so. Resources that are exchanged between the two are neither important nor non-substitutable from their perspectives, which provide little incentive to create and maintain a 'constructive' ongoing relationship. Although they exchange resources to maintain organisational viability and are more 'interactive' than a one-time transaction relationship, little is foreseen in terms of a co-operative relationship.

## Resources in Exchange

In determining the nature of the exchange relationship between government and co-operatives, the next important question is the definition of 'resources'. For our purpose, we assume that there are two types of resources that affect or influence the other. The first type is positive resources that confer values to the other party. These include not only tangible assets such as the means of production but also such intangibles as 'respect' and 'affection'. Government has numerous positive resources it can offer to co-operatives: subsidies, credit, preferential government contracts, tax treatment and discounts on public services including postage and tax-exempt bonds. It can also provide information including expertise and technical assistance, political support and legitimacy (Galaskiewicz, 1985) and access to the non-legislative policy formulation process (Rourke, 1984). These resources can be combined to offer advantages to a particular co-operative over for-profit bodies and other co-operatives. Co-operatives, on the other hand, can offer such intangibles to government as compliance with or support for its policies. In particular, those co-operatives in rival relationships with the state can confer legitimacy to government policies by explicitly endorsing them or implicitly keeping quiet. Non-governmental organi-sations can also supply their service and delivery capacity, information and political support.

The other type of resources, negative resources, can be used to 'coerce' or 'threaten' the other party. From a government perspective, this might refer to the withdrawal or threat of withdrawal of the positive resources that can influence the operation of co-operatives. In addition, government possesses numerous policy instruments that can affect the working of co-operatives, such as instituting entry barriers and regulations mandating co-operative procedures, refusing to

**Figure 4: Exchange relationship between Government and Co-operatives**

| | | Co-operatives' dependence on Government | |
|---|---|---|---|
| | | High | Low |
| Government's dependence on co-operatives | High | Mutual Dependence | Unilateral Dependence (Co-operative dominant) |
| | Low | Unilateral Dependence (Government dominant) | Mutual Independence |

*Source: Author's model based on Scharpf (1978: 356)*

provide mandated services, and making co-operatives difficult to operate in general.

From a co-operative's perspective, it can affect government policies in several ways. Among its positive resources are an organisational structure based on grass roots sub-operating units and the 'influence' or 'respect' these command among its members. Influence and respect are qualities which governments of authoritarian or coalition/minority parties lack and are, therefore, defined as non-substitutable as well as being important. Providing active support and general compliance with government policies tends to make co-operatives attractive partners from a government's perspective. Not reacting to government policies and programmes could also be regarded as helping governments in certain instances. Negative resources, then, refer to co-operatives' unwillingness to support and even oppose government policies. Since members of co-operatives tend to have homogeneous characteristics with a converged objective, co-operatives can be a power to be reckoned with in their relationship with the government.

Analysing the exchange relationship based on the resource dependency perspective requires some important assumptions. First, the organisations in question have both compatible and convergent objectives in view of the fact that organisations often consist of a multiple number of participants. Second, an organisation's objective function does not shift or diverge over time, thus making the 'game' predictable.

Although the state is often in a dominant position and co-operatives lack bargaining power, with state funding of co-operatives playing an important role in the growth of the sector over the years, there are signs of changes in the relationship. This paper examines how the state sought to maintain its relationship with the co-operative sector and how the relationship has evolved over the years. This will be done through the historical analysis of the relationship between the government and co-operatives involved in rural areas.

## The Relationship in Korea

The co-operative movement in Korea has been active since the late 1960s, when the government-led economic development plan began to effectively mobilise national resources. Since then, numerous co-operatives have formed. Their federations include the National Agricultural Co-operative Federation (NACF), which merged with the National Livestock Co-operatives Federation (NLCF) and the Korea Ginseng Co-operatives Federation (KGCF) in 2000 as part of a government-initiated reform.

Others are the Korean Federation of Community Credit Co-operatives (KFCC), National Federation of Fisheries Co-operatives (NFFC), National Credit Union Federation of Korea (NACUFOK), Korea Federation of Small and Medium Business (KFSB), forestry co-operatives, tobacco producer co-operatives, Saemaul credit co-operatives and consumer co-operatives. NACF now consists of over 1,300 co-operatives with operating divisions in marketing, purchasing,

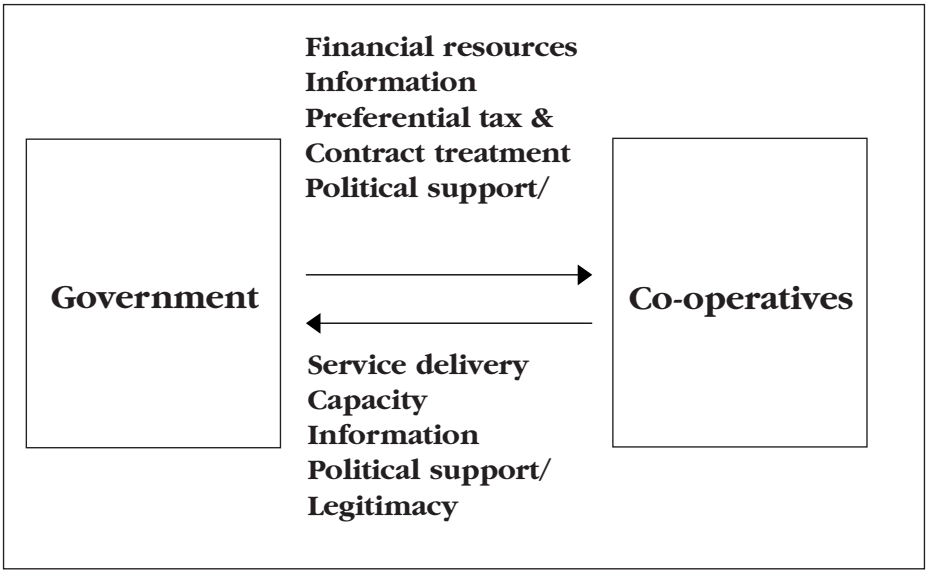
credit, banking and other relevant support activities (NACF, 2001). It is reported to have over 2 million members.

We would argue that although the growth of co-operatives is largely due to the entrepreneurship and voluntary nature of their operations (Harriss; 1996), the state has played a critical role given the characteristics of development that has emerged in Korea. It is important to note that the state has played a dominant role in civil society. Coston (1998) stated that in determining the relationship between the state and non-profit sector, the government's resistance to or acceptance of institutional pluralism, its relative power asymmetry and degree of forma-lisation of the relationship are important. The first is reflected in 'government policy vis-à-vis co-operatives'. Government tax policy with respect to co-operatives' income, subscriptions and other tax deductions with the purchasing, contracting-out policies or any policies which confer preferential treatment in government contracting or procurement and registration requirements can affect the workings of co-operatives.

Relative power asymmetry refers to the bargaining position or resource dependency of these actors in determining the relations. Thus, the government's intention to use the available resources that can positively or negatively affect the operation of non-profits determines the type of relationship between the two.

We need to be more specific in explaining why governments in

**Figure 5: Resource Dependence Relationship**




*Source: Modified Version of Saidel (1991, 545)*

developing nations tend to be in a dominating position with co-operatives (Etzioni, 1973). First, many co-operatives – including agricultural and fishery businesses – were set up by the government and it has systematically controlled the workings of these with formal and informal regulation. Formal regulation refers to special legislations the government has enacted governing the operation and structure of individual co-operative movements in Korea.

Informal regulation refers to the bureaucratic control of co-operative operations at the central level and this was the norm until the late 1980s. Second, businesses such as forestry, tobacco and ginseng co-operatives were created as quasi-governmental bodies in order to augment the activities of the government in this field. Third, co-operatives had to derive an income from governments in terms of service contracts. Unlike direct subsidies, these types of contracts provide a steady stream of income. Fourth, governments can influence the institutional structure of co-operatives through registration requirements and through reporting and other administrative guidelines. Fifth, government policies on co-operatives' tax status have important consequences on their position compared with for-profits. And lastly, a government's commitment to institutional pluralism, or lack thereof, is not only related to its control over the policy-making and agenda-setting processes of co-operatives, but is crucial in providing them with institutional working areas.

The legacy of industrialisation in Korea has not only impacted on the relationship between the state and businesses but also the state and co-operative sector. Just as states intervene in markets with subsidies and licenses as well as credits in order to strategically foster the growth of 'targeted' industries, the Korean government intervened to induce the growth of the targeted co-operative movements.

This was possible under the name of balanced economic and regional growth, as most co-operative movements were centred around rural and other 'non-strategic' areas of economic activity. In terms of the exchange relationship, the state tends to have more concentrated power, and the lack of economic resources available to the private sector and to non-profits tends to make these organisations more reliant upon the state.

In addition, there are non-profits that maintain a complementary relation-ship with the government, including those in social welfare, health, education, consumer protection, women's rights, and other 'soft' non-profits which tend to allow the government to intervene in their affairs and which receive various types of state assistance. Because these constitute the majority of co-operatives in Korea, direct government subsidies play a critical role in the development of the sector. Thus, unlike the evolution of agricultural and other co-operatives in other developed countries, the Korean co-operative has the distinctive feature of government involvement.

The situation is bolstered by Salamon's (1987) theory on 'the voluntary sector

failure'. This argues that the ineffectiveness of voluntary organisations, which is largely due to their limited resources and lack of expertise, can be remedied by state aid. This suggests that the government should play a more active role in providing necessary resources for co-operatives.

However, although most co-operatives were established under state sponsorship, consumer co-operatives and credit co-operatives have been relatively autonomous in terms of their relationship with the state. These types of co-operative are essentially seen as different from both capitalism and public enterprises, yet they co-exist with the other two sectors as a viable and self-sufficient economic actor (Torgenson et al, 1997). Moreover, those co-operatives that have been subject to close government supervision have been gaining more autonomy since the late 1980s when more democratic decision-making was implicitly guaranteed by the withdrawal of the state.

To sum up, we found that the state has been deeply involved in the growth of the co-operative sector and this confirms the validity of the positive theory of co-operatives. The state has been the force behind the co-operative sector because of the development tradition that emphasises close co-operation between the state and civil society and, more importantly, for reasons related to the political control of the masses through umbrella organisations.

Co-operatives were a means of ensuring co-operation among the rural population. Another possible reason relates to the transaction cost consideration from the bureaucracy perspective, where co-operatives are effectively used as organisations augmenting the policies and programmes of the government in lieu of direct state intervention. However, this is an evolutionary process where the key actor is the state and its willingness to give up an important policy instrument. Thus, the dynamic relationship between the two has been oscillating towards mutual dependence.

## Conclusions and Policy Implications

The relationship between govern-ment and co-operative organisations is increasingly becoming a popular topic within the public administration community. This is helped by the popularity of the term 'governance' which not only includes the actions of the government, but extends to address civil society in the policy formulation and implementation processes.

Resource constraints, international pressure from donors and multilateral development banks, market forces and citizens' demands for democracy have all combined to force a fundamental rethinking of the appropriate roles and responsibilities of the state.

There is wide recognition that societal problems cannot be solved by governments or markets acting alone. It is because the co-operative sector's weaknesses correspond well with the government's strength, and vice versa, that a partnership between the two is made worthwhile (Salamon, 1995).

Government is in a position to generate

a more reliable stream of resources as well as adhere to a democratic political and administrative process. With a more reliable quality control process and professionalised service, government can aid the workings of co-operatives. On the other hand, NGOs can personalise services in a more responsive manner. For partnerships to work effectively, the state needs the willingness and capacity to respond effectively and appropriately to the input from civil society (Coston, 1998).

On the co-operatives' side, they are increasingly pressed to acquire the capacity to upgrade their role from passive bystander to becoming a more active player on both the policy formulation and implementation sides. Enhancing their capacity implies acquiring managerial and technical skills to handle a more complex form of implementation as well as complementing these with advocacy and policy dialogue functions. In addition, policy monitoring and policy networking functions should be expanded to ensure accountability and transparency within the public sector.

A growing body of literature has shown that open and transparent democratic governance provides 'the most promising enabling environment for broad-based socio-economic growth by fostering...' (Brinkeroff, 1999). Democratic governance is possible when the state accepts institutional pluralism and exercises its discretion to include more civil society players in the policy network.

It is important to note that there are several roles for co-operatives in developing new social services. These include actual service provision, advocacy for services that are needed, criticism of government policies and programmes, and experimenting with new initiatives. Co-operatives need to respond to the scale and pace of change within society. Both government and co-operatives need to understand that there are limitations to government funding. Consistency and bureaucratisation are real issues.

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***FOOTNOTES***

1. Minho Lee, a student at the Graduate School of Public Administration, Seoul National University, provided able research assistance.
2. It is a discretion of the state, especially in developing countries where the state has overwhelming power in relation to civil society.

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# Co-operation in Health and Social Care: Its Growth and Dynamics

**by Akira Kurimoto***

## Introduction

The health care system in Japan is characterised by its compulsory medical insurance system, greater integration on the supply side and free access for consumers. Universal coverage under the public medical insurance system was accomplished in 1961. The entire nation should be covered by one of eight insurance schemes.

The supply side of medical services ranges from medical corporations and public institutions to individuals, from large hospitals to GPs' clinics, all of which have weak liaison with each other but are moving towards integration. Consumers have free access to health institutions, resulting in congestion in some large hospitals in urban areas. On the whole, the Japanese system has performed well in terms of life expectancy, infant mortality rate and a low ratio of total medical expenditure to GDP, but it has certainly

reached a turning point, with rising medical costs - especially for the growing population of old people - and increasing deficits in medical insurance schemes. The supply of medical services is adequate but there is growing concern about the quality of services, including quality of life for bed-ridden patients and terminal care. Medical treatment is paramount while prevention and health maintenance are undervalued and linkage with long-tem care is still weak. Users' rights to choose and be informed are largely ignored.

This paper will discuss why health co-operatives exist against such a background. There are several reasons for organising health co-operatives: to

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fill a gap in remote areas, to secure medical services for some social classes or to run a medical insurance scheme at an affordable cost. None of these applies to health co-operatives in urban areas, where the oversupply of services is prevalent. Here the author finds a different motive: to allow the users to participate in the health promotion/medical process in collaboration with service providers and to promote transparency and democracy in the medical sector through implementing a Charter of Patients' Rights.

The membership and governance of health co-operatives are analysed. They are classified as user-owned co-operatives by the UN survey, but they involve users AND providers. The majority of users are healthy people who wish to remain so by taking part in learning and self-checking. Almost all providers are also members and play a vital role as professionals. Such a composition may raise some governance problems.

The impressive growth in health co-operatives' membership and business in the 1990s and how this has been achieved is described. The long-term care insurance system, started in 2000, opened up competition among care service providers including for-profit and non-profit operators. Health co-operatives are moving towards providing long-term care as an extension of medical care and creating communities based on people's participation by forming health-medical-welfare networks, involving other institutions and local authorities. Such developments may lead them to the multi-stakeholder model.

## Why Health Co-ops Exist

Why do health co-operatives exist in Japan? There are several reasons, each catering for specific needs. Medical co-operatives were set up to fill a gap in remote areas, especially in villages without a doctor where people had to make a long journey or rely on occasional visits by travelling clinics. They were also organised to secure medical services for some social strata. Before the Second World War, so-called proletarian clinics were created to serve the working class, who could not access normal medical care. Or they were set up to exercise bargaining power to run medical insurance schemes or buy medicines at affordable prices, as the AARP or HMOs in the United States or Druzap in Slovakia have done. In Benin, medical co-operatives were created to save the jobs of doctors released from the public sector as a result of the privatisation of medical services. Alternatively, they might be organised to reduce transaction costs from either users' or providers' viewpoints. None of these scenarios applies to Japanese health co-operatives operating in urban areas, however, as services are easily available, there are even problems of over-supply, and the public medical insurance system controls prices for services and drugs.

So the motive to organise health co-operatives must be found elsewhere. I have found the motive is to create a better quality of health care by enabling users to participate in activities such as health promotion or preventive medicine. In order to attain such a goal, members learn about health in Han

groups and attend various courses for the co-operative's health advisers. They also conduct self-checking of their health by testing and keeping records of their blood pressure, the sugar and salt content in their urine, fat content etc, using simple devices and initially assisted by nurses and health advisers. Thus they have greater awareness of the condition of their health, enabling them to play an active role in leading a healthy life. Health co-operatives are therefore massive learning organisations in which users have more knowledge about their own health and actively collaborate with service providers to prevent or combat diseases rather than passively leaving their health in the hands of the latter.

They also promote transparency and user participation in medical practice through implementing a Charter of Patients' Rights (see Appendix) and bring about democracy in the medical sector, which tends to be closed and authoritarian. 'Informed consent' is generally understood to be a concept to promote patients' human rights but it can be one-way communication from doctors to patients, as seen in the translation 'explanation and consent' made by the Japanese Medical Association. Thus the Charter emphasises patients' rights to be informed, to be self-determined, to maintain privacy, to learn about health and to receive the necessary services in a humane manner. Many co-operatives initiated disclosing case records to patients as a part of the Charter, aiming at collaboration in tackling diseases.

As such, co-operatives seek to empower users to deal with the medical process more actively and work together to lead healthy lives. Pestov argued that the parent day-care co-operative could empower consumers as co-producers through their participation in the work combined with democratic procedures and parents holding honorary offices, thus meeting their desires to influence and participate more in their children's lives. This holds true for health co-operatives. Welfare and medical services are both basically consumed where and when they are produced and users have the potential to influence how the services are provided. But the sheer asymmetry of knowledge and skill in medical care between providers and users requires more careful consideration about users' involvement.

## Membership and Governance

The extensive survey conducted by the United Nations Department for Policy Coordination and Sustainable Development produced in 1997 a report entitled 'Co-operative Enterprise in the Health and Social Care Sectors', which made a detailed classification of co-operatives whose business goals are primarily or solely concerned with health and social care according to the services and ownership:

### *Type of Services*

- Health co-ops providing health services to individuals
- Social care co-ops providing social care services to individuals
- Co-op pharmacies retailing medicines and equipment needed for individual care

- Health and social care sector support co-ops
- Health insurance purchasing and service delivery co-ops

***Type of Ownership***

- User-owned co-ops
- Provider-owned co-ops
- Joint user- and provider-owned co-ops

The UN survey classified the Japanese health co-operatives as 'user-owned'. This is true, since they are owned and controlled by members who are overwhelmingly consumers and they are registered under the Consumer Co-operative Law of 1948. Most members are healthy people who wish to be prepared for the risks of diseases or accidents and to lead a healthy life.

In this regard, health co-operatives are different from organisations exclusively composed of patients. At the same time, medical professionals including doctors, nurses, technicians and chemists are also involved as members. According to the national statistics for 1999, 112 health co-operatives have 2.1 million members, of whom 17,787 (0.8%) are employees, including 1,485 doctors, 8,764 nurses and 2,917 administration officers. Health co-operatives seek to create synergy by involving different stakeholders working together in the same organisations to attain a common goal: the promotion, maintenance, recovery and resto-ration of users' health. Users can help providers to create better services by committing themselves to the health care process, while providers can help users by establishing a positive attitude to maintaining health and tackling diseases.

Such membership composition leads to a user-dominated board of directors: 2,133 lay board members represent users against 740 paid board members representing providers. In the case of Saitama Medical Co-operative, 27 board members represent users while there are 10 full-time board members - 3 doctors, 1 nurse and 6 executive directors. In many cases co-operative chairpersons are doctors. Medical professionals exercise much greater power than is proportional, which may raise some problems in governing co-operatives in a democratic and effective manner, although they are trained extensively to understand co-operative values and to be responsive to users' concerns. In health co-operatives, members of top management are expected to function as trustees by bringing different interests together and there is less inclination towards the management dominance that is questioned in many retail co-operatives. There are a number of intermediary bodies between the board and members to encourage member participation. Han groups play a vital role in promoting members' involvement in learning and practising health promotion; 243,000 members are organised in 25,731 Han groups. The average size is 9.4 members, much bigger than that of retail co-operatives (4.3). District committees - based on school districts – are organised to promote community networks, while users' committees are established to give them a voice in the day-to-day running of hospitals and clinics. The health co-operatives are exempt from the prohibition of non-member business by the Medicines Law, the

reasoning being that doctors should not reject medical treatment if requested.

## Growth and Dynamics

Health co-operatives have grown membership by 76% and turnover by 55% and have doubled their share capital in the 1990s, during which time Japan has experienced a lingering recession (Figures 1 and 2). They have expanded welfare facilities, notably in intermediary health and social care facilities for the elderly and in-home care support centres (Figure 3).

The Health Co-operative Association (HCA) of JCCU has sought to expand member participation by promoting four common tasks: member recruitment, share investment, promotion of Han groups and member education.

It has carried out major campaigns for learning/self-checking and health promotion in Han groups and it has run lectures and correspondence courses for members at local, regional and national levels. As a result the number of Han groups and health advisers has doubled in a decade (Figure 4).

At the same time, HCA has emphasised the importance of creating a solid employee base and maintaining financial health. To attain these objectives, a variety of courses have been organised for doctors, nurses, technicians, care workers, CEOs, administrators, educators, member relations officers and so on to enhance their professional or management skills and their understanding of co-operative values. The number of members/ employees taking correspondence courses has increased from 3,000 in 1995 to nearly 10,000 in 2000. Continuous performance monitoring and guidance by HCA brought about better financial statements and the proportion of societies running at a loss has reduced from 43% to less than 20% in a decade.

Thus, health co-operatives saw impressive growth during these years. It is now estimated they provide 1% of health care in Japan. Although they have been innovative in promoting

**Figure 1. Growth in Health Co-operatives' Members in 1989-1999 (HCA-JCCU Statistics)**

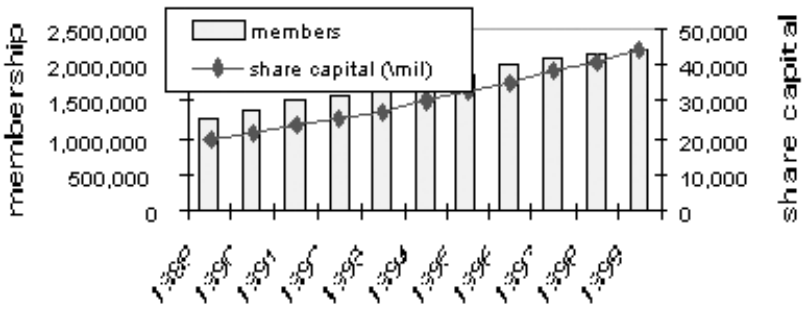


**Figure 2. Growth in Health Co-ops' Business in 1989-1999 (HCA-JCCU Statistics)**

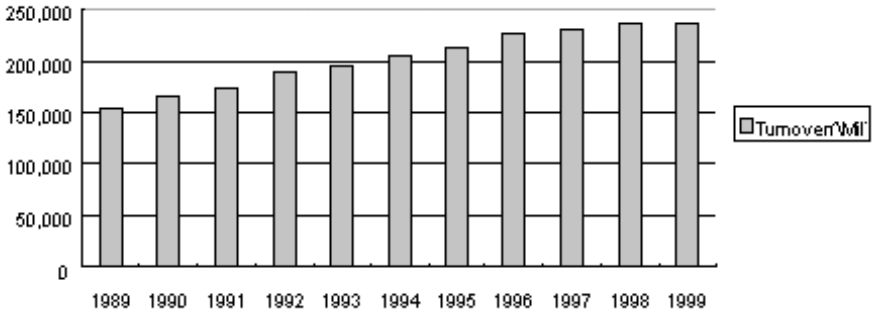



**Figure 3. Growth in Co-op Facilities in 1989-1999 (HCA-JCCU Statistics)**

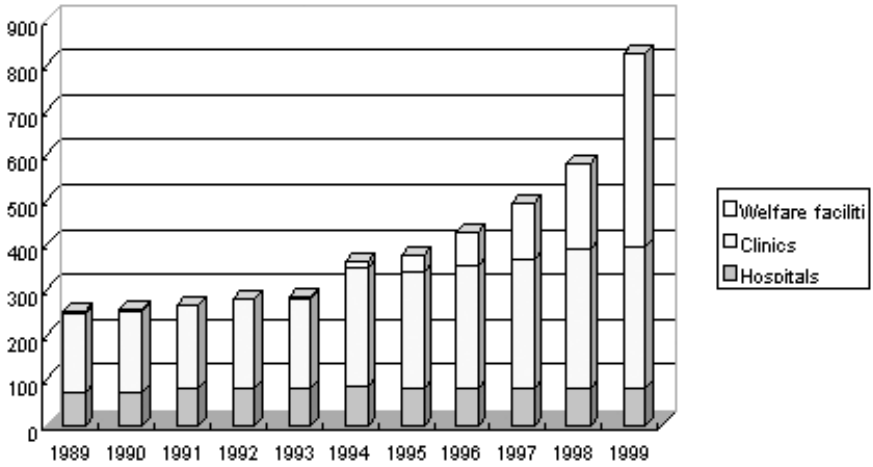
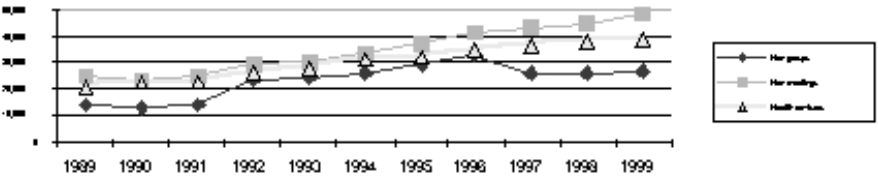



**Figure 4. Growth in Member Participation in 1989-1999 (HCA-JCCU Statistics)**



public health, their presence and role are yet to be widely recognised by the public. To some extent their left-wing stance has prevented them from playing a more important role in creating better communities in collaboration with other civic organisations. This collaboration should largely be developed with retail co-operatives, other types of co-operatives and emerging non-profit organisations. Effective interaction with the State is another challenge. They have been pressing government to improve social security policy while seeking partnership with the public sector by participating in comprehensive regional health plans.

## Community-based Networks

The long-term care insurance system to provide social support for the elderly in need was introduced in April 2000. It is meant to replace tax-based bureaucratic aid for the poorer social strata with an insurance-based system offering individual choice for all citizens, so that they can maintain their human dignity by selecting the care services they require. It opened up competition among service providers including for-profit and non-profit operators. Existing social welfare corporations as well as companies and non-profit bodies have entered the field. It is premature to assess the results after only one year. Some private companies are facing serious setbacks and reducing the size of their operations, while semi-governmental social welfare corporations seem to be succeeding in gaining their former clients. Many hospitals also rushed into providing long-term care services, thus strengthening so-called medico-social care complexes, which might provide convenience and all-in care provision but could also allow them to profit from patients by enclosing them in a circle of subsidiary facilities. In fact, 85% of intermediary health and social care facilities for the elderly, 45% of in-home care support centres and 30% of nursing homes are built and controlled by private hospitals.

The goal has been to integrate health promotion, medical care and long-term care in order to address the problems of acute contagious diseases and chronic adult diseases, generate better-coordinated services for patients and reduce overall costs. Such a goal is not easily achieved, however, mainly for institutional and functional reasons. Health centres and most welfare facilities are financed by taxation, while most medical institutions must be financially self-sufficient and do not want to provide services that will not pay. The different approaches in these functions have posed barriers to coordination, as there are very few people who have a thorough knowledge of all of them. To secure the continuity of long-term care, an inclusive structure, care coordination, integrated information systems and integrated financing are required. There are some examples of integrated services initiated by local governments but they are limited to remote areas where public hospitals play the commanding role and the aforementioned medico-social care complexes do not include health services.

Health co-operatives are now rising to the challenge of providing long-term

care as a natural extension of health promotion and medical care. They are seeking to create better communities based on member participation by strengthening health-medical-welfare networks. It is unrealistic that they alone can provide integrated services, so they intend to collaborate with other organisations including public/private nursing homes and local authorities. Such developments may lead them to becoming multi-stakeholder co-operatives for health promotion, medical and social care.


*Health co-ops' campaign for WHO World Health Day: co-op staff taking blood pressure on the street.*

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**APPENDIX**

# The Health Co-operative Association Charter of Patients' Rights

## Democracy in Health Care

As citizens of Japan, we all have the fundamental rights to be respected as human beings and to receive necessary health care without any discrimination. With people's advance in pursuit of democracy, the constitutional idea of the right to lead healthy and culturally fulfilled lives is steadily taking root. From this perspective, people are demanding openness and participation in health care.

However, the rights of patients have not been fully recognised in the field of health care, especially in medical establishments in Japan. In order to promote the health co-operative movement, clearly defining the rights and responsibilities of patients and the obligations and responsibilities of providers of health care, as well as those of local and central governments, has become a task that both users and providers of health care can no longer avoid.

## Health Co-operatives

Health co-operatives are autonomous organisations set up by residents based on the Consumers' Livelihood Co-operative Society Law. Their objectives are: to be a forum in which residents discuss problems concerning their health and daily life; to set up organisations to own and operate medical institutions; to solve problems through various movements in co-operation with co-operative employees and health care providers.

Co-operative members promote all kinds of activities through their investment, involvement and management. Even in the case of health care, they are not merely recipients of health services but also need to participate autonomously in these activities.

Health co-operatives, based on Han groups and individual households, are pursuing activities to promote health in communities. To continue active and enjoyable lives, people must themselves change, have an influence on society and actively co-operate with others. This is what our healthy living is all about. These are the fundamentals of our better health building movement.

Each co-operative member has participated and co-operated to make our health co-operatives what they are today. There is still a trend where human dignity is not respected. However, we will continue to move forward, placing great importance on members' participation and co-operation.

## The Charter of Patients' Rights

The aim of this Charter is to foster and value highly members' own lives. To do this, members must make efforts and maintain self-control. At the same time, the Charter is a declaration of human rights, which guarantees that the lives of all co-op members and local residents are respected and supported

by everybody. The Charter also guarantees democracy and residents' participation in health care.

## Rights and Responsibilities of Patients

Patients have the following rights and responsibilities:

***Right to be informed***

The right to receive a comprehensible explanation, to their own satisfaction, regarding issues such as the name and condition of diagnosed diseases including examination results; the prognosis or forecast on the course of diseases; the medical care plan for their diseases; treatments and operations, including the reasons for a decision to carry them out and their details; names of drugs and their effects/side-effects; and necessary payments.

***Right to determine***

After receiving an explanation to their own satisfaction, patients can decide for themselves the suitability of the medical care plan and other matters proposed by providers.

***Right regarding privacy***

The right to have a patient's privacy protected with no interference in personal affairs.

***Right to learn***

The right to learn about their own disease, the method of its treatment and prevention, and a healthy life in general.

***Right to receive medical care***

The right to receive the necessary and optimum medical service at any time, in a way that is worthy of human dignity. The right to demand from central and local governments improvements in the medical security system.

## Participation and co-operation

Patients have responsibilities to protect and develop these rights in co-operation with medical care providers.

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*NOTE: The Charter was adopted on May 11 1991, at the Annual Meeting of the Health Co-operative Association of the Japanese Consumers' Co-operative Union.*

# Employment in the Swedish Social Economy

**by Hans Westlund***

## Introduction

'Social economy' has been an official term in the European Union since 1989, a special unit of the Commission's General Directorate Employment and Social Affairs being responsible for social economy-related issues. A number of statements from the EU indicate that the social economy is given increased attention as a means to create new employment.

The definition of social economy selected by the EU confines it to four types of entrepreneurial and organisational forms, viz co-operatives, mutuals, associations and foundations (CMAF). When Sweden applied for membership of the EU it was natural for the term to be introduced in Sweden as well.

Towards the end of 1997 the Swedish government appointed a working party of officials, one of whose tasks was to

define the expression 'social economy'.

There are hopes and expectations in political quarters that the social economy may be able to generate or preserve jobs which the private or public sector is unable either to create or to safeguard. These hopes are based, inter alia, on a number of international studies conducted during the 1990s which showed a considerable expansion of non-profit sector employment in several countries and also of employment in local neo co-operative businesses in various West European regions (see Table 1, but also Hodgkinson et al. 1992).

However, none of these studies was able to quantify the extent to which this increased employment resulted from

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**Table 1. Employment growth in social-economic forms and growth of total employment, recorded in three studies.**

| *Employment 1980-90** | *Non-profit sector* | *Total employment* |
|---|---|---|
| France | +40% | +3% |
| Germary | +36% | +10% |
| United States | +41% | +19% |
| | | |
| Employment 1990-95** | Non-profit sector | Total employment |
| Nine countries | +23% | +6% |
| | | |
| Employment 1990-95*** | Neo co-operatives | |
| 20 West-European regions | +44% | |

* *Salamon and Anheier (1994 and 1996)*
** *Salamon, Anheier and Associates (1998)*
*** *Westlund and Westerdahl (1997)*

cutbacks in public or private production (i.e. jobs 'saved') or other types of takeover of public or private activity - or whether the rises in employment were really 'newly-created' jobs.

## Social Economy and Employment

*A modest share of total employment*

The most comprehensive survey of activities categorised as social economy in Sweden has been carried out by Lundström and Wijkström (1997) under the auspices of an international project, coordinated by Johns Hopkins University in the United States and comparing the non-profit sectors of a number of countries. Lundström and Wijkström recorded all registered organisations and also conducted polls so as to compile estimates of activity and other key variables of non-registered associations. Their study concentrated chiefly on the substance of the activities, not on their juridical form. Because the study related to the non-profit sector and also had to be comparable with parallel studies under the international project, enterprises/organisations not obviously classifiable as non-profit in nature were excluded.

This meant that the established consumer, producer and housing co-operative movements, savings banks, mutual insurance companies, state foundations, private foundations without public purposes, and the Swedish state church, were not included. Table 2 contains a summary of some of Lundström and Wijkström's results categorised according to the juridical form of the activities. In conjunction with the work of the government's working party on the social economy, Eurenius, Stats-

**Table 2. Number of enterprises/organisations, number of employees and turnover in the non-profit sector in Sweden 1992.**

| | Neo-Co-ops | Non-Profit organi-sations | Unregistered associations (ca) | Founda-tions | Total |
|---|---|---|---|---|---|
| Enterprises/ organisations | 16,423 | 107,262 | 58,000 | 2,609 | 184,294 |
| Employees | | | | | 101,118* |
| Turnover (millions of SEK) | 3,588 | 49,036 | | 7,176 | 59,800 |
| Turnover's share of GDP | | | | | 4.1 % |

* *Equivalent to 83 084 full-time jobs*
*Source: Lundström and Wijkström 1997.*

**Table 3. Number of active enterprises/organisations, employees & VAT-chargeable income of juridical units in Sweden in 1997.**

| | Economic associa-tions & housing co-ops | Mutual com-panies | Non-profit associa-tions | Other juridical forms | Total |
|---|---|---|---|---|---|
| Enterprises/organs. | 15,536 | 296 | 22,762 | 3,470 | 42,064 |
| Employees | 62,114 | 10,903 | 75,572 | 21,635 | 170,224 |
| VAT-chargeable revenue/SEK mil. | 104,260 | 3,512 | 6,225 | 6,757 | 120,754 |
| Revenue as share of all businesses' | | | | | 2,996 |

*Source: Eurenius, 1999.*

kontoret (Swedish Agency for Administrative Development) conducted a study aimed at ascertaining the extensiveness of the CMAF juridical forms in Sweden in 1997. Table 3 summarises some of its findings.

The results of the studies diverge in several respects. Lundström and Wijkström's study concentrated on describing activities, not their juridical forms. This also means that their findings are comparable with Eurenius' study to only a limited degree. A feature common to the two studies is that the social economy is responsible for a relatively modest portion of the officially

quantified national economy, with one exception: the total number of 'enterprises'/organisations.

*Crisis and transformation during the 1990s*

Activities conducted in social-economic forms in Sweden underwent a radical change during the 1990s. The dominant feature of the change was the reconstruction of large established enterprises by conversion, in whole or in part, from social-economic forms to joint stock company forms. Föreningsbanken (the farmers' bank) and Sparbanken Sverige (the national savings bank) were converted to joint stock companies and amalgamated. The foundations comprised in the Samhall group (state owned foundations with the aim to give jobs to disabled) were converted to joint stock companies. There were also sell-offs of co-operatively owned industrial enterprises into private ownership. In addition there were 'normal' rationalisations of those activities still conducted in social-economic forms.

The total effect of these changes was to reduce the numbers employed under social-economic forms by about 76,000 persons, or 31%, between 1991 and 1997 (Eurenius, 1999).

It should be stressed that these far-reaching changes, though concentrated in time into the 1990s, were of course the end-result of protracted processes. For example, the formal conversion of the banks in question to openly commercial entrepreneurial forms had been preceded by decades during which their original purposes and orientation were being diluted in favour of growing commercial banking activities.

In parallel with this large-scale exodus from the social-economic forms, new kinds of activity have emerged. Between 1985 and 1999, 10,000 more jobs appeared in what we define as the neo co-operative movement - new economic associations with less than 40 employees (Höckertin, 2001). Jobs in employee-owned enterprises in the private and public sector increased during the 1990s (Lindkvist, 2001). A smaller rise also took place in the numbers employed in the non-profit sector (Nordfeldt and Lundstedt, 2001). Viewed in the aggregate, however, these rises were by no means sufficient to compensate for the loss of jobs in the mature, established activities. The shifts which have taken place between social-economic forms and other juridical entrepreneurial forms are probably just shifts for the most part, i.e. the activities have neither disappeared nor appeared but have simply changed form.

## Why didn't Employment in Social-Economic Forms Increase?

From the purely economic angle of course it does not matter in which juridical form a job is performed. A more social perspective on the question of employment leads to different conclusions, however. Job opportunities are just one of many components of 'the good life' and their emergence may be conceived of as an outcome of social-economic activities. Blenn-berger, Jess and Olsson (1999) mention the following as examples of such values: euphoria and significance, cultural diversity, social solidarity and integration, training in democracy, defence of rights, mobilisation of marginal groups, inculca-

tion of discipline, cost effectiveness, socioeconomic gain, public health, job opportunities, fresh ideas and innovation, and other particular qualities.

It is not the case of course that activities conducted in social-economic forms automatically serve all these social values while those which are performed in openly commercial forms only serve purely economic values. Nevertheless it is probably true on the whole that it is mainly non-profit organisations, co-operatives, foundations and the like that produce social values. But the social values which Blennberger et al cite do arise to a certain extent as a result of commercial activities as well. Jobs are perhaps the most obvious example.

Therefore while the form in which employment is created does not matter from a narrow, purely employment perspective, the form in which activities are conducted nevertheless has an important impact on a number of other social values. Because of their basic purposes, non-profit associations, co-operatives, foundations etc. are generally more focused than openly commercial forms of activity are on producing these social values. In the 'division of labour' which arose between social-economic and openly commercial organisational and entrepreneurial forms, job creation has for much the greater part been an effect of the commercial forms of activity (and also of the public sector, which is not considered in detail here, however). As long as this division of labour was functioning well, there was not in general any reason for the existing social-economic organisations to give priority to employment compared with their other social purposes.

During the crisis of the 1990s, however, the job-generating capacity of both the commercial and the public sector faltered. This would signify opportunities for social-economic forms of activity to expand. This was what happened, too, but to a relatively limited extent. The outflow of job opportunities from the established social economy considerably outnumbered the new creations in the new sectors.

There are probably several explanations of the failure of social-economic forms to expand more on the labour market during the 1990s. Lindkvist (2001) has argued that employee-owned enterprises have usually been regarded as deviant oddities and thus been accorded little acceptance by the community. This probably applies to neo co-operatives as well. The economic association is now probably relatively well accepted by the general public as a form in the case of childcare, but for 'ordinary' new enterprises the traditional forms are wholly dominant.

Another reason for the weak expansion of social-economic forms during the 1990s rests with the organisations themselves. The majority of organisations already in existence have not, for understandable reasons, regarded it as their function to add 'creating jobs' to their already established list of aims. No extensive formation of new organisations aimed at creating employment has happened either. It is chiefly the small neo co-operative movement that has brought the question of the social economy as a job-creator under the spotlight. However, it has been found considerably easier to establish the co-operative form in parts of the care and

welfare sector, in which the activity is performed at the instance of municipal and county authorities and competitors are often absent, than was the case in other areas of the labour market where more or less free competition prevails.

What implications does this have for the view of the social economy as an instrument of labour market policy? The distinction between social economy in the narrow sense - i.e. its juridical forms - and social economy in the sense of social elements of the economy is important to this discussion.

## Policy Conclusions

*Not a general instrument of labour market policy*

There is nothing to indicate that businesses in social-economic forms might normally speaking be better at creating jobs than other forms of enterprise. On the contrary, during the 1990s important parts of the established social economy went over to the company form. Neither is there anything to indicate, for example, that neo co-operatives in general have been a road to success in getting the unemployed out on to the labour market. However, there are a number of good examples suggesting that social-economic entrepreneurial forms may be a useful instrument of labour market policy for certain specific groups. These examples involve groups of such varied character as dwellers in sparsely populated areas, immigrants, drug addicts and so on. But with these categories too it strains credibility to pick out job creation with the help of the social economy as a general means of setting the unemployed to work.

*A means of strengthening traditional enterprise, partnerships and local co-operation*

Thus, if job creation via the social economy in its narrow organisational sense may not generally be a directly efficacious instrument of labour market policy, there are nonetheless certain arguments for regarding it as an indirect means of creating jobs. Leading and participating in economic and non-profit associations are in high degree learning processes, yielding knowledge and experience which are important in business undertakings.

As Höckertin (2001) shows, the majority of recently formed economic associations lack employees. Many of the new economic associations have been formed by existing small businesses to perform tasks (eg. administration or marketing) for which the principal business lacks the dimensions. It is possible that as well as improving the profitability of firms, this solution may produce a hotbed for increased co-operation between firms, which can have an influence on local development.

There is one example which may be significant in Forsberg's (2001) study on the effects of local development groups on employment. The development group in her inquiry that was found to be most successful in creating jobs was converted from an economic association to a joint stock company when turnover and employment increased.

An example of a similar process is furnished by an electronics firm that started up as an employee-owned business in 1982, but by 1999 its ownership structure had evolved into an ordinary joint

stock company with 62 employees (Lithander and Mölnhoff, 2000). We do not know how generally valid these examples are, but they do suggest that small businesses operating initially in social-economic forms may become the embryos of larger enterprises in traditional forms.

In other words there are examples and arguments in favour of the possibility that businesses in social-economic forms may have direct and indirect effects on enterprise and employment, mainly at local level.

This may be important, but most immediately it underlines the conclusion that job creation via the social economy cannot be regarded as a general measure of labour market policy. Nevertheless initiatives for social-economic solutions at local level may conceivably form elements of locally devised strategies for increasing employment.

Factors determining success or failure in this may be whether the initiatives are bottom-up or top-down, and whether they are supported by active local partnership (Westlund 2000).

*Social economy as creator and preserver of social capital*

Activities in social-economic forms both reflect and influence norms, values, knowledge and other social features which are reflected in human relations. This social capital varies between different regions, groups and levels of society. It is held to have an impact on a society's or a region's economic development and growth potential. The organisational forms which we count as social-economic naturally have an important effect on the social capital of the society. They defend its values or help new values to take over. Consciously or unconsciously they uphold or seek to change attitudes which by their prolongation have effects on local employment, for example. In this way social-economic organisations constitute a key component of a nation's social capital.

Research suggests there are links between social capital and economic development. However, it is probably not a case of the quantity of social capital determining economic development but of its composition, and thus its quality, doing so. Just as there are examples of social capital sustaining economic growth, so there are examples of social capital creating a negative growth climate. (For a research outline of this discussion, see Westlund and Bolton, 2001).

Can labour market policy or other political measures, then, really influence such a multifaceted and often intractable factor as social capital? The answer is probably that social capital consists of phenomena with dissimilar propensities to change and that political measures may possibly influence the parts most easily changed. Berggren, Brulin and Gustafsson (1998) have argued that government initiative can combine with industrial reorganisation in the cause of regional vitalisation.

The authors believe that in order to generate the sort of developmental dynamism which has demonstrated such success in the so-called Third Italy and elsewhere, for example, the initiative needs to be based on the existing local/regional social capital and networks. Such a strategy is not without problems of course.

Certain regions are dominated by activities which simply have the future behind them, and the existing social capital carries the marks of these declining activities. Path dependence is a well-known concept for these established restrictions in network dynamics, mentality, institutions, etc. (cf. e.g. Krugman, 1991 and Arthur, 1994). Perhaps the way to express this is that the regions which have the greatest need of labour market policy measures require not only new economic activities but also a partial renewal of social capital.

## Concluding Remarks

The experiences summarised in this paper indicate that social-economic forms will not be responsible for any substantial expansion of employment in Sweden within the foreseeable future. The social-economic entrepreneurial forms are generally accepted only within certain limited sectors of the labour market. The established entrepreneurial forms, including those in the public sector, dominate the Swedish labour market, and their institutional grip on it seems to be very firm.

The effect of social-economic organisations on employment, therefore, is probably mainly indirect inasmuch as they function as platforms for co-operation between firms or else as embryos for enterprises by strengthening local entrepreneurship and helping to nurture a deposit of social capital which has visible effects on private business and jobs. Social-economic organisations can also play an important role as formal or informal partners in local and regional growth processes. For the most part, however, we still lack systematic knowledge of these processes.

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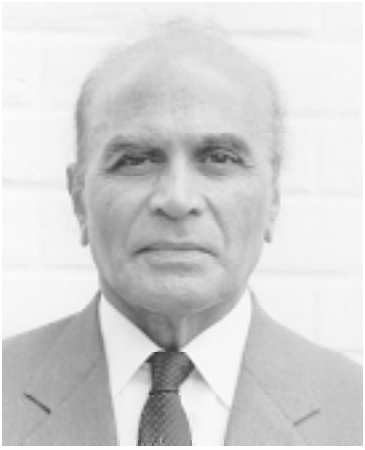
# Co-operative Rejuvenation through Self-Help Groups and Other Alternatives

**by Madhav V. Madane***

## Background

'Co-operatives - Has their time come or gone?' was the heading of a discussion paper prepared by the People's Participation Service of the Food and Agriculture Organisation of the United Nations for the Centennial Congress of the International Co-operative Alliance in Manchester in 1995. The paper echoed the sentiments of many co-operators throughout the world who, over a quarter of a century, have encountered innumerable obstacles in managing their co-operatives and maintaining their viability in the ever-changing economic scenario of de-regulation and globalisation. Added to this is the erosion of co-operative values and the gradual weakening of member loyalty in co-operatively organised businesses and services. While most co-operators



want to see their co-operatives emerge successfully out of this ordeal, a good number of them are sceptical about whether co-operatives can withstand the competition and succeed in sustaining the loyalty of their members. Some of those ready to abandon their co-operatives say: 'If the mighty communism, which held its sway over the world for most of the twentieth century, could collapse like a pack of cards, what then of co-operatives?'

## Distancing from Stakeholders

While slackening member loyalty is a global phenomenon, the factors responsible for increasing the distance

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between members and their co-operatives are as varied as the nature of co-operatives in different continents. Alignment of co-operatives with different political parties is a major factor in developed countries like Japan and the United Kingdom. This, along with ever-increasing competition from multi-national corporations, has resulted in the loss of membership support as well as the weakening of leadership and the spirit of commitment and dedication among people responsible for guiding the destinies of a co-operative enterprise. During the past decade co-operatives in the former socialist countries, which were forced to align themselves with the ruling parties, have been left to fend for themselves, losing a sizable number of members and a huge amount of business in the competitive economic changes that followed. In addition, the comparative advantages available to members through transacting business with co-operatives have lost their edge, with the adoption of such practices by the corporate business world and the addition of incentives and services that may not be available in co-operatives. The co-operative dividend has lost its relevance in the world of ever-growing income levels and the weakening of the propensity to 'save for a rainy day'.

## Asia-Pacific Scenario

Co-operatives in the developing world, especially those in the Asia-Pacific Region, have to cope with a unique relationship with governments which have, in most cases, been responsible for introducing in their countries different types of co-operatives to suit their socio-economic environment. The result is that very few governments have attempted to withdraw from the co-operative scene, leaving the co-operatives to find their own resources and develop the skills to manage the organisations on their own. On the contrary, governments in many countries have, through legislation and ordinances, spread their tentacles in most of the important areas where member participation in the decision-making process is imperative.

Some countries have come to treat co-operatives as tools for implementing their development programmes, even though these programmes may be far removed from co-operative objectives and may even be counter to co-operative values and principles. The Indian situation went from bad to worse when the governments, with their well-intentioned but ill-conceived plans to boost the borrowing capacity of co-operatives, decided to participate in the equity capital of apex and secondary co-operatives and also many large primaries. The coercive and all-pervasive laws which followed this participation have played a devastating role in driving the co-operatives away from their original objectives as well as in the erosion of values and principles guiding their activities.

The result has been the over-shadowing of all the things the co-operative movement stands for. The present position could be described as follows:

1. Co-operative laws have created an atmosphere of distrust among members. The complicated laws and rules have developed a tendency to find loopholes and escapes from obligations and responsibilities

among members, board members, management personnel and the parties contracting with the co-operatives;

2. Co-operative values of honesty, mutuality, caring for others, openness and togetherness have taken a back seat;
3. Members and stakeholders have distanced themselves from their own co-operatives, keeping only the minimum contact for obtaining loans and other services without any commitment to fulfil their obligations. Contrary to this is the encirclement by governments of all aspects of co-operative functions;
4. The well-informed and elite leadership is gradually moving away from the co-operative scene, leaving the field open to opportunists, politicians and corrupt elements;
5. For lack of a determined and dynamic strategy towards their business, co-operatives find themselves lagging far behind in the competitive world; and
6. Because of lack of member loyalty and ever-declining gains from co-operative business, the capital formation process has slowed down to a considerable extent.

All the above factors have contributed to the loss of faith and trust in co-operative ideology and in the search for viable alternatives. Those willing to take their co-operatives forward are trying to free them from government controls and restore to them their basic rights of voluntaryism, democratic control and self-regulation.

The following are the three main areas through which attempts are being made to resolve the present impasse:

1. Phased deregulation;
2. Promotion of non-formal co-operatives and self-help groups; and
3. Conversion of co-operatives into co-operative companies or the assumption of a totally corporate image.

## Phased Deregulation

For over a decade, the International Co-operative Alliance (ICA) has been organising in the Asia-Pacific Region conferences of Co-operative Ministers from various countries. At each conference, the declarations issued by the participating state representatives and co-operative leaders have called upon the regional countries to gradually introduce progressive legislation which will eventually free co-operatives from government control and restore to them the right to function in accordance with co-operative values and principles.

A review of the present situation suggests that governments have done little in this regard, however. Only in the Philippines during the last decade of the twentieth century has new legislation removed almost all coercive provisions from the existing law. In India, Andhra Pradesh, Bihar, Orissa and Madhya Pradesh states have passed separate legislation for a parallel law for non-aided co-operatives. This has freed only those co-operatives not receiving assistance from their governments. But in most of the states, existing laws are adequate to control, if the governments so wish, these new types of co-operative.

There is strong resistance in

government circles against freeing co-operatives from government controls because of deeply-rooted vested interests that developed over the decades and also, to some extent, interference by political parties in co-operative management to gain political advantage through favours and concessions bestowed upon certain co-operatives and their members.

Co-operative legislation is passed separately by each state in India. The subject of co-operation is in the concurrent list of the Indian Constitution. Hence the states are free to decide their policies regarding co-operatives, although the central government has passed a Multi-State Co-operative Societies Act for co-operatives operating in more than one state. The Indian Society for Studies in Co-operation (ISSC) took the initiative in 1998 to appoint a committee to draft a bill entitled the Maharashtra Self-Reliant Co-operative Societies Bill for the state of Maharastra and submitted it to the government. However, no action has been taken by the government to pass such a bill based on the ISSC draft. Additionally, the Co-operative Development Foundation (CDF), which drafted the first bill for a Self-Reliant Co-operative Societies Act in Andhra Pradesh, prepared a model bill for a Multi-State Co-operative Act on similar lines. So far, no steps have been taken to pass an act on the lines recommended in the draft bill.

## Self-Help Groups in the Past

Coming together as self-help groups or non-formal groups for meeting common economic and social needs and securing desired services from external sources has been a natural instinct among members of any community since the beginning of human civilisation. From the cradle to the grave, human beings have resorted to pooling together their energy and resources to fulfil social, economic and religious needs as warranted by circumstances at any given time. This urge to come together has found expression, over the centuries, in as many ways as there are tribes and communities in different parts of the world.

Members of non-formal groups are voluntarily bound together by the basic values of mutuality and trust.

They feel protected in the groups against exploitation and subjugation. An important tenet of such groups is that they do not have to find escape from any provision of the code of conduct as provided in the law. On the contrary, in self-help groups a code for self-regulation emerges from its voluntary acceptance by all the participating members.

Robert Owen started his co-operative communities without ever thinking to bind them through a legal framework. During a later period in England, doubts were expressed about whether the Industrial and Provident Societies Act would help or hinder co-operative growth. The recurring disputes over taxation of co-operatives proved that the latter was the case. It is a common experience that when law comes, disputes follow. In the Asian Region, very good examples of non-formal co-operatives existed before the emergence of formal co-operatives.

In India, self-help groups are found in

most parts of the country under different age-old names, such as Bhishi, Phud, Kurries, Chit Funds, Communidad and many others. They are formed by people for promoting savings and advancing loans when needed, common work on the farms, and for community activities. There is no written code of conduct and no rules for their behaviour or activities.

In Afghanistan, a chain of village level Karizes (underground irrigation wells linked together) has been in operation with the assistance of self-help groups since ancient times. In South Korea, three types of informal groups known as Dure, Pumasi and Kye function to meet the common economic and social needs of the rural community. In Japan, during the feudal era, the Han system of collective labour for agricultural production on feudal land was very strong for several centuries. Han members shared a part of the grain produced on feudal lands.

## Emergence of New Groups

The overriding consideration for reverting to self-help groups is the breakdown of the credit cycle in some countries in the Asian Region. Among the reasons for the failure of the institutional credit system in several areas is non-observance of the responsibilities and obligations on the part of both the members and their elected office-bearers. In particular, the problem of recovery of loans could be attributed to:

1. Default due to natural calamities and the absence of any insurance system or mechanism for compensation;
2. Deliberate defaults and rampant practices of re-scheduling of loans leading to tendencies to avoid repayment;
3. Political pressures both on the borrowing members not to repay and on the lending co-operatives not to insist on recovery;
4. Indiscriminate lending without proper verification of repayment capacity; and
5. Frequent government decisions to grant waivers or reduction in the amount of loans taken.

The breakdown of the credit cycle leads to a reduction in the amount available for members' economic activities, and to manipulation in accounting in order to show recovery and re-issue of loans without these actually taking place. The search for an alternative system of channelling credit and other services, especially at the micro level, has led to the emergence of self-help groups, consisting of a small number of members, at the grass roots level. Several studies have been made to evaluate the impact of these programmes. The results so far are encouraging.

## Bangladesh

For the past three decades or so, Bangladesh has taken initiatives in several directions and started various programmes to introduce channelling of credit through informal groups at the grass roots level.

The main institutions involved in these programmes are the Bangladesh Rural Development Board (BRDB), the Bangladesh Academy for Rural Development (Comilla Academy), the Grameen Bank and the Association for

Social Advancement(ASA). The Comilla Academy has a thirty-year record of working with self-help groups at the grass roots and has established a network of such institutions for rural development.

The Association for Social Advancement (ASA) has been established with financial and technical assistance from the Government of Netherlands. Although started in 1979 as an NGO to promote social awakening and group organisation among the poor, ASA has shifted its emphasis to the economic empowerment of its members with micro-credit as the core programme.

The main features of the programme are:

1. Building local people's organisations;
2. Self-management and participation by the borrower members in decision-making;
3. The group as social collateral;
4. Matching credit policy with members' economic and financial credit needs; and
5. Linkages with overall development activities.

In a recent study, Dr Pankaj S. Jain describes as follows the strategic positioning and viability of the programme: 'ASA implicitly recognises that viability and sustenance of the ASA programme requires fulfilment of two conditions. First, the financial resource needs of the programme should be such that they are easily and implicitly acceptable to the supplier of resources. Second, the programme should carve out a niche for itself in the relevant domain, becoming a competitively superior alternative.'

An interesting feature of the groups formed under ASA is that most of the committees consist of women members. Also, adequate credit is disbursed according to the needs of the borrowing member, so that he or she does not have to seek other sources for additional funds. Collective liability or guarantee is another unique feature, as was the case during the early stages of the formal co-operatives in the Indian Sub-Continent. Programme activities for four years are shown in the table overleaf.

## India

The self-help groups (SHGs) in India had no connection with institutional credit until the National Bank for Agriculture and Rural Development (NABARD) launched a project to link SHGs with banks in February 1992. Until then, these groups promoted savings among their members and used such resources to meet the credit needs of members.

The main features of the NABARD programme are:

1. There is a direct linkage of commercial banks, rural development banks and co-operative banks to the ultimate borrowers, viz. the SHGs, thus eliminating the primary co-operative;
2. NABARD refinances these banks for lending operations to SHGs;
3. Encouraging NGOs to act as promotional and guidance agencies for the formation and supervision of SHGs. Financing NGOs for such activities through soft loans;
4. Facilitating training of NGO and

**Table - Programme activities for four years***

| *Programme features* | *1992* | *1993* | *1995* | *1996* |
|---|---|---|---|---|
| Year-end Membership | 143,894 | 256,512 | 404,218 | 570,893 |
| No.of loans given | 88,325 | 204,066 | 404,218 | 539,852 |
| Loans given: (TK'000) | 170,173 | 499,493 | 1015,924 | 1840,619 |
| Members savings (TK'000) | 28,744 | 98,184 | 245,631 | 418,487 |
| Average initial loan (TK) | 1,984 | 2,529 | 3,161 | 3,478 |
| Av. No. Loan Officers | 911 | 980 | 1,499 | 1,918 |
| ARREARS PORTFOLIO | | | 1.10% | 0.98% |
| Operating cost ratio | 19.35% | 16.45% | 12.05% | 11.45% |
| Financial self-sufficiency | 43.78% | 89.36% | 101.92% | 100.25% |

* *Managing Fast Expansion of Micro-Credit Programs: Pankaj Jain*

bank personnel involved in work related to SHGs;

5. One hundred per cent refinance to banks for their lending to SHGs at a 6.5% PA rate of interest;
6. Simplified procedures for obtaining loans; and
7. No supervision by lending agencies over SHGs; guidance through NGOs as and when necessary.

Several studies have been carried out on the impact of the micro-finance programme through SHGs. In one case, the hypothesis was that 'The SHG beneficiaries face no procedural problems for their needs', while in another, 'Repayment responses of loans by SHG are better than the primary co-operative'.

In the studies the methods of conventional analysis, namely average and percentage analysis, were employed. NABARD's own evaluation supported by studies of other agencies brings out the following points:

1. Increase in the loan volume of the SHGs;
2. Shift in the pattern of loan utilisation from non-income generating activities to production activities;
3. Hundred per cent repayment performance; and
4. Significant reduction in transaction costs for both the banks and the SHGs.

Another study by Prof. S. Madheswaran and Prof. Amita Dharmadhikary of the Gokhale Institute of Politics and Economics (GIPE), a premier institute in the country, was conducted by taking three villages as a sample to examine the SHGs launched in the State of Maharashtra, under the NABARD-supported Maharashtra Rural Credit Project. It states:

'The survey has revealed that there were no defaulters among the individuals in the sample. This implies that even the poor can show financial

discipline and that a high rate of interest is not a deterrent for taking a loan. Members - including the poorest - said that the ease of obtaining a loan compensated for the higher cost. However, some members of SHGs would prefer large loan amounts and lower interest rates. Although the loan amount is small, it is meeting a requirement of the poor. Small amounts of loan coupled with financial discipline ensure that loans are given more frequently and hence credit needs for a variety of purposes and at shorter time intervals can be met. This is a better mechanism to reduce poverty gradually as against giving a one-time loan for productive assets.'

This study particularly concentrated on the role of women in the SHG-oriented scheme. It said: 'Status of women, both within the household and outside, has improved. However, the process takes time. Two women were emphatic in reporting an improvement in their status both within and outside the household. The initial male resistance waned as loans augmented household incomes.' The programmes carried out through a Co-operative Bank 'are yielding fruits and the rate of growth of formation of SHGs is increasing'.

Several other studies conducted on the impact of credit programmes through SHGs point to the positive aspects of the programme, such as an improvement in the people's participation, greater awareness of details of the scheme and increase in the consciousness towards fulfilment of responsibilities on the part of the participating members. In short, the bypassing of the co-operative channel has created, among the borrowers, an element of trust and mutuality among the SHG members. Under the programme, the credit cycle operates in a smoother way than in the operations through the formal co-operative channel.

## SHGs as a Viable Alternative

The results of micro-credit programmes through SHGs are encouraging. They have proved beyond doubt their capacity to rejuvenate the basic primary structure and improve the quality of life for their members. The non-formal status has given them greater flexibility and simplicity in their operations. However, the question remains to be answered whether they are capable of replacing the co-operative form of organisation at the grass roots. The answer to my mind is a negative one.

First, the scale of operations of SHGs is too small to take the place of the co-operative. However, they can be effective in competing with the co-operative in providing credit and other services to the village community, thereby taking away the near monopoly of co-operatives in providing institutional credit.

Second, the performance of SHGs is not uniform in all the areas covered by them. In the studies conducted in the Madurai District of Tamil Nadu in the Southern part of India, it was found that some of the SHGs face a recovery problem. The reason stated for non-repayment and irregular repayment was that nearly fifty per cent of beneficiaries of a co-operative society reported the expectation of a waiver due to crop failure and family expenditure and other prior commitments.

In the case of SHG beneficiaries, the reasons were family expenditure and crop failure. Here, while the overdues are common to both organisations, SHG members do not expect a waiver in repayment as is expected by co-operative members.

Third, SHG members desirous of enrolling themselves as members of co-operatives face a stiff problem in getting admitted. Hence, the process of changing their status to members of a formal co-operative is slow and difficult.

Fourth, the rejuvenation process can be strengthened only if the SHGs are allowed to function, within the scope of their pattern of functioning, as a local or sub-unit of the primary co-operative so that they can gradually improve the quality of performance of co-operative members and ultimately that of the co-operative.

In other words, the feasibility of both co-operatives and SHGs functioning in a role complimentary to each other may have to be explored and experimented with. Experience so far suggests that the self-help group alternative, though viable, is far from adequate and can only improve with a better quality of group behaviour, democratic participation and strengthening the bonds of mutuality and trust. As in the past, they will continue to grow and strengthen their role only under the guidance and support of NGOs.

## Co-operative Companies

The third possibility of co-operatives converting themselves into private companies or forming co-operatively owned subsidiaries is open only to large scale co-operative business organisations and co-operative banks. This group is required to bear the brunt of the burden of the effects of deregulation and globalisation. Most co-operative business organisations are keen to retain their identity within the co-operative movement, but at the same time they wish to secure legal protection to operate freely in the competitive market. The examples of co-operatives seeking this option are limited. About two years ago, a co-operative bank in Pune opted to convert itself into a commercial bank and has since grown its business secured from the open market rather than from the core members it had at the time of conversion.

In Singapore, the NTUC sponsored COMFORT, the local taxi/transport co-operative with a successful business record during which it became the biggest taxi-operating organisation, recently opted for converting itself into a private transport company. The unique feature of this company, during the initial years, was that the ownership of the organisation remained in the hands of the taxi operators who were members of COMFORT, but recently non-taxi operators have been purchasing shares. In India, there has been only one such example of poultry farmers registering their own company, known as Agro-Corpex India Ltd.

In Europe as well as in Australia, many large-scale co-operatives are now operating as co-operative companies or just as private enterprises in the corporate sector. In India, the demand is growing for permission to operate as a co-operative company with greater

freedom in the market. But their number is still limited compared with the total number of enterprises in the co-operative sector.

A healthier and more acceptable alternative for co-operative members is the pattern of co-operatively owned companies which have been operating in Japan, South Korea, some European countries and in the United States of America. This pattern enables the subsidiaries to operate freely in the competitive market while the shareholding owner co-operative remains in the co-operative orbit.

Rejuvenation of co-operatives through self-help groups and other primary units is still the most dynamic process of retaining co-operative identity. At this stage, the tide is in favour of retaining the basic co-operative structure with periodic adjustments to the environment and reorientation of policies and management practices to ensure competitive services to the members and stakeholders.

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# Co-operative Principles and the Culture of Agro Businesses :

## The Case of Olive Oil Co-operatives

**By Elia García Martí, Mª Jesús Hernández Ortiz and Carmen Ruiz Jiménez***

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### Introduction

The culture of an organisation is characterised by the presence of values and attitudes shared by a group that condition its behaviour. Ansoff (1985) describes the strategic culture of a group as the set of norms and values that determine the group's preference for a certain type of strategic behaviour.

In this way, company culture can be defined as the values, beliefs, attitudes, expectations, rationalities and aptitudes common to all or at least to the great majority of the members of the company. These are implicit rules that influence people's behaviour in the context of their work. Therefore the culture is implicit, invisible and informal. In the words of professors García and García (1991, p 21) the culture is a group of intangible elements (presumptions, basic postulates, values, beliefs, sup-positions, expectations…) shared by the members of an organisation that constitute traditions that are transmitted from parents to children and in an unconscious way

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from some members to others. These elements represent the glue and the invisible force of nature that determine the rules regulating internal behaviour or different methods of doing things, both individually and as a group.

Due to integrative action, the culture of the company homogenises personal behaviour and reinforces the system of rules and the configuration of power implicitly: culture and structure are mutually reinforced and they condition decisions and actions. The culture is the basis of the identity of the organisation and has an influence on this because it contributes towards shaping the image of the company. For any organisation, cultural characteristics represent an important factor in its success or failure, which is why their study awakens such interest.

The principles that govern a co-operative society - the pillars that actually support it - are the ideas that form the norms of the institution. This solid cultural dimension can form a strong base for the development of strategies that make it possible to compete successfully in the market (Rodrigo, 1995). But the culture of any organisation is not immobile; it evolves with time, maintaining its essence but adapting to the uncertainty of sudden and unexpected changes in the environment. The principles that are the basis of co-operative culture have their origin in the statutes of the Rochdale Society of Equitable Pioneers.

These statutes put into practice internal organisational rules that today are recognised by the International Co-operative Alliance, which has modified and adapted the principles to current needs. The co-operative principles form a system and are inseparable; they work together and they should be observed in their entirety.

In this paper our aim is to show how this culture has affected the competitiveness of olive oil co-operatives; whether it has allowed them to achieve their objectives; and to what extent the culture can evolve in the new business environment.

## Empiric Analysis - Methodology

In this work we use a qualitative methodology, due to the characteristics of the study. We have tried to identify the material form of the co-operative principles in the olive oil co-operatives, as a guide to the cultural rules that determine the performance of these organisations, future tendencies, and limitations they may have in the process of change in their organisations.

For the collection and analysis of data, in depth interviews were carried out with members of 31 different olive oil co-operatives, selected in accordance with their number in each of the provinces of Spain.

We interviewed 140 people. For the selection of the individuals to be interviewed we considered the involvement of those in the management, the scale of their olive grove production and the level of their dependence on the income gained from the cultivation of the olives, i.e. if they had only one source of income coming from the cultivation of olives or if this was complementary with another of different origin. We started with the premise that managerial perspectives would be different

according to these considerations. In this way, in each co-operative the president, some members of the board of directors, the person who carries out the administrative work and the members or proprietors of different sized olive groves were interviewed. All the interviews were carried out from November 1999 to March 2000.

## Cultural Characteristics

As has already been shown, the culture of an organisation includes the group of traditional ways and abilities of thinking, feeling, deciding and reacting to the threats and opportunities facing an organisation in its daily activities. This is brought about in the olive oil co-operatives through a series of principles and expressed values common to all the organisations of this type. Next we will explore the materialisation of these principles and values, one by one, in the culture of the co-operatives.

## Voluntary and Open Membership

The principle of voluntary and open membership means that co-operatives are organisations open to anyone able to use their services and willing to accept the responsibilities of membership, without discrimination by gender, social position, race, political or religious belief. In these societies it has been proved that, in general terms, this principle is widely adopted, coinciding with the conclusions of other studies like Vargas (2000). A co-operative only refuses admission to members because of limitations in the physical capacity of the industry. Innovations carried out in some olive oil co-operatives have allowed them to admit more members.

In the last few years the amount of land dedicated to olive production has been increasing, and there is great pressure from these new proprietors to be accepted into the co-operative nearest to them.

Thus, the only limitations that olive oil co-operatives apply to the admission of new members are those related to the technical needs of the industry rather than more personal matters.

For the incorporation of new members into the organisation, the geographical location of the olive grove must be considered in relation to the production facilities. In this way, olive oil co-operatives admit people who acquire new fields or inherit part of a field.

In our research, we have noticed that this principle encourages members to identify with the society and with the town or geographical area where its industry is located. The organisation tries not to put obstacles in the way of the admission of new members.

## Democratic Member Control

The second principle, democratic member control, tries to involve all the members in the business. This principle means that the administration will be carried out by common agreement, transforming the members into controllers of their lives, as they decide what to do and where to direct the organisation, promoting, in this way, the wealth of the whole membership. This characteristic is different from other organisations because a co-operative's management does not depend on the wishes of a small

number of members who own most of the share capital. Instead, decisions are made in general assembly by majority vote.

In other authors' studies, such as the aforementioned Vargas (2000), it is noted that this principle achieves a 35 per cent success rate, taking the percentage of members who go to the assemblies and their active participation as variables. In this study we considered that it was acceptable to consider the number of members who attend, but we noted that a great passivity exists when it comes to expressing opinions at meetings.

In our research, members considered the level of attendance at the assemblies to be acceptable. The most important meetings, from their point of view, were those to approve bills and to divide profits. Absent members tended to be the farmers with the biggest olive groves, those with a small operation or those who lived far from the co-operative. It was also important to take into account that it was quite normal to find several members belonging to one family, who informed each other and even attended meetings on each other's behalf.

Attendance at assemblies and informal relationships help to spread information to the members about the work of the co-operative and the rules that emanate from the management. The informal structure of these co-operatives encourages commu-nication among all members about the daily work, informing them of the volume of production, what quality oil is being obtained and how investments are progressing.

Often members can express suggestions and make complaints about the performance of managers; in short, manage the business in an informal way. Managers try to avoid this situation through participation; nevertheless, they use these informal relations to obtain information from the members about their preferences in relation to policies for the organisation, to see how decisions have been accepted and carried out, and what their position will be in assemblies. Members and managers complain about the importance that this informal organisation has, using informal relationships to support the formal structure.

Attendance at assemblies does not mean that the members participate in them. Active member participation is low, with proposals emanating from managers or members of the board.

Thus, on occasions, managers do not feel motivated in their work because they do not see members becoming involved. Besides, members delegate responsibility to the board because they have a lot of trust in it, based on the board's experience in the work of the organisation or in the economic, political or social relevance they have in the town where the co-operative is based. Members tend not to worry about the future as long as they obtain the profits they expect.

## Member Economic Participation

The principle of the members' economic participation means that each member must contribute to the running of the co-operative and profits are shared in relation to the work carried out in the organisation. It is based on

providing each member with a return – a source of wealth – related to the work carried out or to the quality and quantity of the product contributed. Therefore each member benefits in proportion to what he or she contributes to the organisation, not in proportion to the capital that has been invested.

The basis of the calculation of the contribution varies with the different co-operatives studied; in particular it can be a quantity fixed according to the physical dimensions of the olive grove, or in relation to the quantity of olives contributed. The member is admitted with the obligation to contribute his or her production to the co-operative, and the costs are calculated in relation to that production.

Unfortunately member loyalty fails on occasions, because in some cases different members of a family belong to different olive oil businesses, so they can switch according to the profits expected by each one they belong to. This damages the olive oil co-operative by increasing the production costs for the rest of the membership.

To sum up, members pay great importance to this principle. They feel satisfied receiving profits in proportion to their contribution, without discrimination, because they gain according to their efforts.

## Autonomy and Independence

This principle refers to the autonomy of the co-operative from political, economic, religious or union influence. 'Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy' (ICA, 1995).

Olive oil co-operatives were established to defend members against big private businesses and to achieve economic and social independence from major landowners who, with their private olive oil companies, exerted great influence and power. Throughout their evolution, they have tried to maintain their autonomy and to defend the interests of the producer-members. Members put their trust in the co-operative because, in general, they believe that they will not be deceived when weighing the olives that they bring to the factory. They control the quality of the olives and defend the product better. Above all, co-operatives always consider the benefits of the members. Olive oil co-operatives try to be independent from external influences, although in some instances they have tried to influence political or social affairs.

Inside the co-operatives, some members are considered to be indispensable and, on many occasions, they have the power to take certain decisions. This can compromise the independence of the organisation.

On the other hand, economic autonomy is difficult to achieve because small co-operatives become very dependent on marketing companies. They will only achieve co-operative autonomy, from an economic point of view, when they are able to market their products on a larger scale.

## Education, Training and Information

This principle envisages working for the advance of the organisation and for its place in the world around it. Education and training can be of two types: training in professional knowledge to improve the work and competitiveness of the organisation, and training inside and outside the organisation to improve the democratic performance and thus increase its development.

The education olive oil co-operatives provide for their members is limited to professional training courses run by bodies they belong to, such as federations or groups of co-operatives or different associations. In particular, these courses are focused on the improvement of product quality, improving olive grove treatment, or explaining the characteristics and handling of new machinery. For those in charge of specific functions inside the organisation, such as administration, courses are offered focusing on managerial aspects related to the product.

There is limited training and education aimed at explaining the characteristics of the co-operative culture to the community where each olive oil co-operative is located. This is restricted almost exclusively to informal publicity when members meet their acquaintances and groups to which they are related. Besides this, action undertaken to explain the olive oil co-operative to young people - who represent the future of the organisation - is carried out through school visits to the co-operative and conferences in schools.

Training is an important aspect in managerial development. Co-operatives must be aware of this and should improve the training of their boards of directors as well as their members and workers. But this work cannot be done in isolation. It has been observed that there is increasing collaboration between teaching institutions and co-operatives to provide training and to increase knowledge of the co-operative culture.

This principle is also concerned with the information that a co-operative should offer to its members, in addition to which the members must ask for information to monitor results. Above all, as has been shown previously, members do not demand enough information about the performance of their co-operative. This situation changes only when a co-operative's results turn out badly compared with competitors. The information most relevant to members is the production figures and the date when they will be paid. In short, the formal information that comes from the board is complemented by informal knowledge that comes from direct contacts among members and board representatives.

## Co-operation among Co-operatives

This principle aims to serve members more efficiently and to strengthen the co-operative movement by working together through local, regional, national and international structures (ICA, 1995). It means the olive-oil co-operative can improve its organisation thought co-operative and collabo-rative benchmarking and exchanging knowledge about activities with other

similar bodies. It raises the possibility of working together with other co-operatives to solve mutual problems. In the olive oil co-operatives, members and administrators consider co-operation among co-operatives to be important for their survival. Co-operation has developed econo-mically and politically. Economically it is manifested in unions to solve marketing and production problems. The need to co-operate in marketing is understood by most members of olive oil co-operatives. At present, the suppression of the intervention mechanism[1] has made co-operation more urgent to regulate the market. The desired results will be achieved when these agreements are led by members with open minds, who are able to overcome individualism and parochialism in favour of long-term and global strategies.

Co-operation in production is not very well developed; smaller businesses make technological changes without having the appropriate size to bear the very high costs. Nevertheless, in the case of the elimination of by-products from the production process, some companies have been formed to solve the problem by the union of several olive oil co-operatives. In the past it was easy to dispose of these oil by-products because legislation did not exist, but now the law is stricter which means increased costs for companies wishing to comply.

Political co-operation is manifested through the existence of federations and associations to which most olive oil co-operatives belong. The aim of these is to inform members of changes that will affect them politically, economically and socially.

## Concern for Community

The final principle, concern for the community, means that co-operatives work towards the sustainable development of their communities through policies approved by their members (ICA, 1995).

In reality, we have been able to observe that there are not many members willing to carry out work in the co-operative without rem-uneration. Members claim lack of time to dedicate to the organisation, because of their work in another activities relating to their principal source of income. They prefer to dedicate their leisure time to other things instead of carrying out work in the olive oil co-operative. In addition, members look for profitability instead of the preservation of the environment; they prefer to use products that bring them greater profit even though these are harmful – from an ecological point of view – to the geographical area where they operate.

On the other hand, it can be observed that the industry of the co-operative is equal for all members. This means that members obtain satisfaction and profits that they could not get by operating alone. This solidarity is also manifested among members when they share their resources with everybody in the town where they are located, for example to campaign against the depopulation of the countryside. Because of the olive oil co-operative, they have an income to live on and they contribute towards the maintenance of commercial and economic activity in the area.

## The Organisational Culture

The culture of the olive oil co-operative has some characteristics that differentiate it from other organisations, as has been previously described. These distinctive characteristics could be a source of competitive advantage for the organisation, as they are the reflection of the personalities and the unique experiences of the people who work in them (Barley, 1983) and of the personalities of their founders (Schein, 1983, Zucker, 1977).

Most olive oil co-operatives were born as a defence mechanism for small farmers. They tried to put people before capital. Everybody was entitled to decide about their future, without taking into account the financial resources that each of them contributed. This is one of the basic aspects of the culture that differentiates co-operatives from others and it represents a key characteristic at present, when the quality of people is considered crucial in organisations.

Another characteristic which makes the co-operative managerial culture different is based on trying to aim for the member's satisfaction, so that his or her participation is encouraged in three types of flows: production-distribution, financial and informative-decisional. The members participate in the production-distribution flows by supplying inputs that the organisation needs to the productive process. They will be remunerated according to the quantity and quality of their contribution.

The members participate in the social capital of the society with their contribution, and obtain finance from the co-operative for projects related to the work or to the product contributed to the organisation. Finally, they participate in the informative-decisional flows by taking decisions in the general assembly, where each member has a vote independent of the capital invested.

This is the democratic control by members of the society that increases motivation and self-fulfilment – professional and social – making them active participants in the organisation. This orientation toward people is one of the most important assets in the co-operative culture. Co-operatives try to achieve objectives with the members, not through them. These members share and assume freely accepted values, such as specialisation in the product they supply, the feeling of owing the business, payment according to their contribution, an orientation towards people, the participation of all the members to stimulate their creativity and the creation of subcultures linked to an occupation and a town.

A separation between property and control does not occur. On the contrary, individuals who contribute the capital to the organisation coincide with those who set objectives and direct it. The proprietors are the members who contribute their produce. This helps the work of the organisation and therefore its survival. On the other hand, the co-operative has a distinctive element: its autonomy and independence.

In fact, it has the capacity to exist without having to depend on another type of company. This autonomy can be seen in the concern for education and training that it tries to offer

members. The co-operative also offers information to members about what it is doing inside the organisation. Another of the characteristics of the co-operative culture is its concern to bring co-operation among equals to solve common problems, to undertake projects in a combined way and to facilitate the advance of the co-operative culture in the marketplace.

Finally, the co-operative culture is also characterised by its concern for the area in which the organisation is located, because it considers the development of the community, from which it receives resources and to which it gives resources, to be important for the future. To sum up, it can be said that the co-operative culture looks for quality in people and tries to develop an ethos of solidarity.

## Need for Strategic Change

Changes are occurring in the competitive environment, external and internal, in which olive oil co-operatives exist. Although the co-operative culture is not so old that it may be incapable of bringing about these changes successfully, it must evolve and adapt to the new conditions. For example, the dimensions of individual olive groves are becoming smaller due to their division over generations.

This indicates that the income obtained from the olive groves may not be enough to live on, so it must be supplemented by another job. The olive oil income nevertheless remains a very important factor in the family economy.

Unfortunately, the information that members receive is not always fully understood, due to the lack of training in some specific topics, mainly those relating to managerial administration.

This is one of the reasons for the reduced involvement of members in their co-operative as well as a lack of active participation in the general assemblies. Although the attendance of members is high, they do not participate because they do not understand the decisions adopted.

They consider the co-operative as a business that is there to serve them, and they look for the most profit with the least effort. This behaviour means that on occasions members may give part of their produce to another company separate from the co-operative they belong to, in the hope of obtaining greater income.

Olive oil co-operatives must be more interested in how their product reaches the final consumer. This is the way they can obtain the greatest added value. To achieve this, they should not sell their production in bulk but consider packing the oil themselves to take maximum advantage of the value that can be obtained. Thus members should try to seek solutions that involve them more in the organisation, personally and economically, if they want to guarantee the survival of the business. These new strategies demand, for example, a person in charge of the management of the organisation (García, 2002).

Another challenge is that new olive groves are being planted in the expectation of being able to receive grants from the European Union[2]. These new olive groves have increased olive oil production and consequently have created problems in its sale.

Today, therefore, each business must look for a market for its production – and the problem is knowing how to find that market. This is one of the reasons why co-operative managers are having problems maintaining members' revenues. They are beginning to realise that, under these changing conditions, they need greater knowledge of the marketplace and must grow in size to be competitive.

On the other hand, members are showing more interest in the administration of the co-operatives because of the decrease in their profits. The administration has always been centred on one or several people who have taken on this responsibility voluntarily, without charging anything to the business.

The only gain for these people was in their importance within their local town. The traditional belief was that this 'voluntary system' would assure the survival of the co-operative. Thus olive oil co-operatives face an extra cost in hiring a professional manager if they are to remain competitive and to produce revenue according to the expectations of their members, although they do not yet know how to pay for this.

To sum up, we have shown the characteristics of the cultural change and the need for evolution in the co-operative culture to adapt to the new conditions of the market and to live successfully in the competitive environment.

## Conclusions

Now we have established the need for change in some of the cultural aspects in the olive oil co-operatives, we will try to describe these changes with the aim of solving different problems. A change in the culture of the societies is not impossible, but it will be slow and expensive. The time and effort will be related to the strength of the existing culture, although it will always be possible to evolve in the long or short term to adapt to the conditions of the competitive environment. This cultural change can be brought about by an external crisis or by internal forces.

The external crisis might be the result of increased competition in the olive oil market, such as the change of the CMO[3], the entry of external products[4] and the disappearance of price intervention. While internal forces are manifested as a consequence, the result of the changes in the external environment could mean a fall in profits and a delay in the payments to members, so they might try to look for solutions. At present, if an olive oil co-operative wants to survive in the market, it has to examine the lack of sales outside the organisation once it has increased the quality of its products and it has managed to reduce the costs for members. The external environment demands that the co-operative adapts to new forms of competition in the marketplace, which involves marketing skills. That is to say, they need individuals in the organisation with some expertise of the market and of the business in which they operate. The traditional co-operative management has not disappeared. Members are still the owners of their business and therefore they must direct it and look after their interests. But they must be representative, they must be the visible head of the organisation and they must

set objectives that they want to achieve and which will serve as a guide for the professional management that is brought in.

On the other hand, the present culture has a short-term vision. It is based on providing the members of the organisation with large profits in a short period of time. Members try to distribute all the earnings without considering a long-term vision. This would be less likely to happen once external managers were introduced, even though this might involve extra costs borne by the members – albeit for their own benefit.

The main thing being sought with the attempt to direct cultural change is that the co-operative can better adapt to new conditions in a marketplace characterised by high complexity, great uncertainty and rapid changes.

These conditions demand a reactive vision that rejects passivity and neutrality; an anticipation of change; an acceptance of change; and a consideration of it as something normal within the organisation.

This would give rise to the appearance in these co-operatives of an externally guided culture, based on the study of the circumstances of the external environment to solve problems, with professional management concerned about people and about the improvement in their standard of living, as well as about the profits of their members.

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## ***FOOTNOTES***

1. This is a government mechanism to buy at a fixed price the excess production from every olive oil co-operative at the end of the year.
2. Grants will change from being calculated on production to being calculated on the number of trees owned.
3. Common market organisation
4. Although they have different characteristics, they are a substitute product with a low price.