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THIS ISSUE:

THE ROLE OF LOCALITY IN THE GLOBAL MARKET

MEMBER PARTICIPATION IN ARGIBUSINESS CO-OPERATIVES IN BRAZIL

SUPPLY CHAIN MANAGEMENT IN FARMER CONTROLLED BUSINESSES

FINANCIAL REPORTING IN CO-OPERATIVES

PRIVATISATION AND DEMUTUALISATION

CO-OPERATIVE MANAGEMENT TWO (CONCLUSION OF TWO PART PAPER)

SUSTAINABLE TOURISM AND CO-OPERATIVE VALUES

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NOTICE

From February, 2007

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 Editor for which a charge will be made.

Editorial

In this issue we are delighted to introduce our readers to a content featuring some applied research from Finland and Brazil. We are also particularly grateful to *Olive McCarthy* from University College, Cork in the Republic of Ireland for compiling summaries of some interesting papers presented at a recent ICA Research Committee conference. From Finland *Tuominen, Jussila and Saksa* explore the ability of local knowledge and local identity to provide a competitive advantage to co-operative banks in their country. The positive conclusions, drawn from their data based on interviews with local bank managers, will be encouraging for many credit unions as well as co-operative banks as these forms of financial service co-operatives confront the intense competition and increasing concentrations and amalgamations from their share based rivals in the global market.

The problem for more urban societies and those with less well defined homogeneity and regional or communal identity is that here the sense of identity is more about life style than location. In the same few streets people who are socially and culturally poles apart can be living in close proximity. Even the idea of a local manager has been eclipsed in the UK including in the case of our UK Co-operative Bank. But this does not mean the ideas of community and identity are necessarily dead in more cosmopolitan urban societies but it does suggest that the concept is radically different from the one informing this latest Finnish research. Here local identity and local knowledge have real significance for perceptions in and information about the market for financial services and particularly decision making by customers. In the southern hemisphere this research, I suspect, is very pertinent as well as in much of Canada and rural areas in the Americas in general.

What the UK Co-operative Bank's strategy demonstrated was that communities of values and concerns can replace location as the basis of identity. The UK Co-operative Bank's sophisticated, socially attuned and holistic market research identified and retains close relations with customers in the economic, social and environmental contexts. This enables the UK Co-operative Bank to find itself a niche as a bank that is both ethical and socially proactive on behalf of its customers' social and environmental priorities. Indeed whilst this does not replace the need for good value competitive banking products and services it is precisely the added social value the Bank provides its customers

that differentiates it and provides a competitive advantage in the area of social added value where their private sector rivals find themselves cannot compete.

An illustration of this is the Bank's anti-land mine campaign led by a stark black and white photo of a land mine and a statement that read "The Co-operative Bank does not invest in these. Does yours?" Of course the big private sector banks must invest in the arms trade to keep paying the higher rewards demanded by shareholders in the global economy. I believe that this global capital market pressure to deliver an ever higher return on shareholder capital provides the co-operative sector in general with a genuine opportunity.

All businesses, co-operatives included, must return surpluses over and above their costs. Businesses must cover their costs, including debt servicing and depreciation, and have enough over to invest in sustainable innovations and in the growth and development needed to stay competitive. All businesses must perform at least this well to survive. But the share-based business must earn even more in order to maintain the market expectation of their shareholders for shareholder added value. For the co-operative movement its capital is either sourced as savings and membership subscriptions from its three quarter of a billion members' small savings or as loan capital. Given the safe investment that the vast majority of co-operatives represent this requires only a low level of interest in the main and this is likely to be far less than the demands of a highly mobile and value-hungry market for attracting investors.

For this reason the idea that farmer businesses need to be privatized in order to gain access to capital is plain wrong. Any co-operative management that has a decent business plan will be able to find a reasonably priced source of finance and in all probability can, if it mobilises its members' small savings, raise the money internally. We are pleased therefore to include an important paper by *Fafaliou and Donaldson* questioning the whole so called "logic" of privatization and demutualization.

In their concluding second part review of the co-operative management literature *Lluch, Gomis and Jiménez* draw the conclusion that it is membership participation that remains the critical management performance indicator. What co-operative leaders and particularly co-operative C.E.O.s must face up to is that the measures of membership participation are to be identified in the level of economic involvement and

market information that they provide. This is a much more important measure than their participation in the formal governance structures, as much as this is important and to be encouraged in its own right as a critical safeguard for accountability and reporting.

Market Research into members and other sets of customers can, as the co-operative market research in the case of the UK Co-operative Bank demonstrates, provide management with more good information on members' needs and demands than can be achieved at a life time of quarterly meetings. This form of membership participation plus a responsive management that listens, learns, acts and reports on the actions and outcomes to members is the really critical input members can make to the co-operative managements formation of business policy.

In the paper by *Sigismundo Neto* we have further fascinating regionally focused research this time from Brazil. Here Neto's findings present an interesting proposition that membership participation has a range of informal expressions when things start to go less well for any given co-operative enterprise and that in the Brazilian cultural context informal undertakings are trusted more than contracts. This again seems to undermine those who place so much importance on the formal regulatory mechanisms for determining access to benefits, policy making and general governance processes in co-operatives. The importance of organizational (management) culture in the determination of how co-operatives are to respond to the threat of management subversion of co-operative identity and the dangers of demutualization and loss of ownership by the members that go with it cannot be over emphasised.

Amongst the many threats and opportunities facing co-operatives today we are very grateful to be able to include a thoughtful analysis by *Alan Robb* from New Zealand on the problem changing accounting standards can pose to co-operatives and for his constructive proposals for seeking a solution. I hope we will be able to carry more on this issue and would like to invite others interested in co-operative accountancy and finance to put their views to the journal. I expect, indeed hope, that my own few words above may produce some responses from those studying in the area of co-operative finance as well as accounting. We need to face up to and address this challenge felt particularly acutely in the Co-operative Agribusiness sector where the demutualisation – of the

Canadian Wheat Pool by management arguing this need for better access to finance has been critical in achieving the managements goal of privatisation.

We also, therefore commend to readers the research into the effectiveness of various forms of business models for farmer controlled businesses (FCBs) by *Gonzalez-Diaz, Newton and Alliston*. Their clear analysis of the factors forcing change on current co-operative models is valuable in itself. In their characterisation of the production focus of farmer members and their lack of understanding of the changes and challenges in the modern marketplace we see again the need for a professional management leadership as the driver for progressive business policy, this time in the context of agricultural co-operation. The idea of a food supply chain management based on the recognition of the mutuality of the interests of producers and consumers based on relationship management rooted in co-operative values is the way not just to survival but to competitive advantage for the co-operative form of agribusiness.

The crisis in agricultural co-operatives is a cultural and skill-based problem exacerbated by lay boards which lack the skills and vision necessary to face up to the challenges. There is also a critical lack of management that understand the advantages of co-operation rather than being steeped in MBA-led mythologies about the "rationality" of the market and the absolute unquestioning superiority of the share based corporation. Again I very much hope that the three models proposed by the authors will be taken up and discussed in future issues of the journal. The agricultural sector of the co-operative movement is of critical significance and deserves much more discussion and research.

Finally let me thank *Sanjay Verma* from India for his balanced article advocating a much greater interest in tourism by the co-operative movement in our Opinion section. Ethical tourism should be a key part of any co-operative tourism policy and there may well be clear commercial as well as social and environmental benefits in such an approach. This is as much about the prevention of exploitation of customers as well as local indigenous people and what in the end is our environment. For as global warming demonstrates we all today live in the same ecosystem. I hope Sanjay Verma's paper will be the first of many we carry either from researchers or practitioners on the subject of co-

operative tourism. In the UK the Co-operative Group is the second biggest tour operator in the country and I hope we can carry a response to the principles being addressed in this paper in a future edition.

In our next issue I hope to feature on the question of leadership and change management in co-operatives as well as encourage debate on the issues raised by authors in this and past editions of the Journal. My thanks to all our contributors and to John Donaldson for his invaluable support in the production of this issue of the Journal. I am also delighted to welcome two additional supporters to assist the journal. George Alexopolous a researcher into rural banking and rural development with the Agricultural University of Athens will be the journals Associate Editor commencing with the next issue and Michael Bouriakis, a Senior Lecturer at Brunel University, with a specialism in retailing and distribution, is joining our editorial advisory board.

Finally, it is with the deepest regret that I record the passing this year of Nimal Wijayaratna who had served as a member of the *International Journal of Co-operative*

Management editorial advisory board since the beginning of the journal. I first met Nimal when he was a lecturer at the Co-operative College, Stanford Hall near Loughborough and I was the external examiner for the International Diploma course. With the closure of Stanford Hall Nimal went on to become a Senior Lecturer in the Business School at Loughborough University. During this period he came over and taught on a number of the courses in the Leicester University MBA programme. I also had the pleasure to work with Nimal on a number of co-operative projects including a two week co-operative management short course programme in Vietnam. Nimal's combination of experience, professionalism and good humour made him an excellent colleague and a popular presenter with the students. He was also a good personal friend. I and many others from all over the international co-operative movement that he served will miss both his friendship and his counsel. Our condolences and prayers go out to his family.

Peter Davis

December 2006

Mission of the Journal

- *To act as a medium for the dissemination of best management practise in the co-operative movement*
- *To act as a medium for the publication and dissemination of research into the management of co-operatives*
- *To act as a platform for informed debate within the co-operative sector on issues and problems arising from the management of co-operatives*
- *To act as a vehicle for promoting the professional development and status of managers in the co-operative sector across the management profession as a whole.*
- *To act as a medium for the discussion and dissemination of the latest thinking in all areas of management that may have a relevance to the practise of management in the co-operative sector.*

Locality and Regionality in Management of Finnish Customer Owned Co-operatives

Pasi Tuominen, Iiro Jussila and Juha-Matti Saksa

Abstract

Globalization has raised the question of the role of locality in today's business. Mainstream discussions have dealt with national or regional differentiation of strategies of multinational firms. However, a deep understanding of the core phenomenon – local business – remains unattained. Moreover, co-operatives, the traditionally local and regional form of economic organization has received little attention. Despite recent success, co-operatives have often been declared to vanish from the fields of business. In this paper, we define locality and regionality to examine them in the business and management of co-operatives. Our paper, including the analysis of in-depth data collected from Finnish consumer owned co-operatives, provides the reader with an interpretative framework for understanding local and regional aspects of co-operative organization and business.

Key words

Co-operatives, Business, Locality, Regionality

Introduction

Over the past decade, the concept of globalization has frequently occurred in the discussion of business economics and corporate strategies (e.g., Mair, 1997, Storper & Scott, 1995). It has become popular especially as it represents the ongoing extensive economic and social transformation (e.g., Fiss & Hirsch, 2005; Aykac, 2001; Guillén, 2001). Attitudes towards globalization are generally two-fold: 1) it is praised when exports thrive, innovations flourish, and when new business opportunities emerge, and 2) it is blamed for perishing business opportunities, when factories are closed and jobs are lost, and even for instigating social disorder (cf. Tienari & Vaara, 2005; Sørensen, 2002). Interestingly also, while it has been argued that globalization diminishes those factors, through which various nations, regions and places are identified from one another as separate cultural entities, accounts on globalization and strategy (e.g., Grant, 2005; Schell & Reese, 2003; Porter, 1998, Mair, 1997, Storper & Scott 1995; Porter, 1990) have emphasized the need for localization. Despite (and perhaps because of) the global standardization of operations, companies need to fit their strategies to

national, regional and local socially constructed needs and values (cf. Rigby & Vishwanath, 2006).

Some economic-institutional and social elements of locality, such as local industrial infrastructure, local social structures and changes in consumer demand have been discussed in literature on localization (e.g., Mair, 1997). According to Byrne (2001), the central idea of locality is the ongoing interaction between economic and social institutions in certain, physically and geographically defined area. The related concept of regionality can be defined as a strategy that actively uses geographical space in classifying social phenomena, expressing limits of society, as well as, controlling and affecting resources, matters, information, symbols and individuals with restricting and setting some levels of control in the form of regional borders (Anderson & O'Dowd, 1999).

Co-operatives offer an interesting context for studying locality of business. Co-operatives represent a typical local and regional form of economic organization; from both ownership and business perspective (e.g., Nilsson, 2001; Skurnik & Vihriälä, 1999; Hansmann, 1999; Tainio, 1999). Yet, very little research has been conducted to understand locality and other special features and potential success factors of co-operative organizations (e.g., Kalmi, 2002). In this paper, we build on literature on business and co-operation (e.g., Skurnik, 2005; Freeman, Wicks, & Parmar, 2004), locality and regionality (e.g., Byrne, 2001; Crang, 1999; Agnew, 1987; Lumijärvi, 1983), and in-depth data to introduce an interpretative framework for understanding locality in co-operatives.

Our data consists of 24 interviews of CEOs and elected officials of Finnish customer owned co-operatives, as well as, archive materials and annual reports of those companies. Based on our data, it seems that successful co-operatives are consciously utilizing locality and regionality in their businesses. Our data emphasizes the processes of locally focused boundary spanning, which, according to the accounts in our data, provides co-operatives with absorptive capacity concerning reliable local knowledge and, thus, possibilities to react to the changing customer needs more quickly than competitors. In addition, not only can the co-operative leaders be tentative to interests, such as the interests of local and regional institutions, but they often are also in the position to be able to participate in maintaining and altering those institutions.

Boundary spanning, locality and regionality

Boundary spanning

Organizations can be seen as open systems that interact with and adjust to their external environment (e.g., Grant, 2005; Scott, 2003; Au & Fukuda, 2002). Environment offers possibilities for organizations in the form of resources and markets (e.g., Hodge, Anthony, & Gales, 2003). However, due to its unstable and unpredictable characteristics, it also poses potential threats to the organization's future prosperity and survival (e.g., Schwab, Ungson, & Brown, 1985; Drucker, 1958). Therefore, organization faces many issues related to the environment and the organization itself that influence the compatibility between the environment and the strategy the organization has selected (Zajac, Kraatz, & Bresser, 2000).

Organizations often tend to map their own structures into the complexity of the environment they face (e.g., Fennell & Alexander, 1987). This can be useful, because organizational structure also affects to whom the information about environment goes and how it can be treated (Leifer & Delbecq, 1978). The objective of boundary spanning is to link and coordinate an organization with key constituents in its "external" environment (Bartel, 2001). This is important, because organizational decision makers need information about environmental contingencies in order to make appropriate decisions considering the environmental conditions and contingencies (e.g., Leifer & Delbecq, 1978; for absorptive capacity, see Cohen & Levinthal, 1990). This way organization can succeed in their actions and be flexible enough to adapt to the challenges the environment poses (cf. Hodge, Anthony, & Gales, 2003; Ramaprasad & Prakash, 2003).

Executives' interaction with environment is extremely important, because their ties with stakeholders (e.g., customers, suppliers, unions and community agencies) serve as conduits for information that shapes managerial views of the environment and therefore support the strategic decision-making process (e.g., Geletkanycz & Hambrick 1997, Haunschild, 1994). It has been noted, that there is a positive relationship between the intensity of executives' interaction with environment and the performance of the organization. It seems that the broader the boundary spanning is the higher is the firm's financial performance (Dollinger 1984; cf. Gelatkanycz & Hambrick, 1997).

According to Weick (1969, quoted in Leifer & Delbecq, 1978) it is possible that organizations may affect the environment to which they adapt to instead of adapting

to a ready-made environment. In other words, organizations are able to "manipulate" their external environment and the institutions operating in it and, thus, create conditions suitable for them (cf. Hodge, Anthony, & Gales, 2003, Scott, 2003; Goodstein, 1994; Oliver, 1991). For example the board of directors may play a major role in acquiring knowledge from the business environment and affect the institutional environment for the benefit of the organization (cf. Daily, Dalton, & Cannella, 2003). Co-operatives (i.e., CEOs and board members) active role in maintaining and altering the business environment can be considered to be closely related to co-operative principles, according to which co-operatives must act for the sustainable development of their communities according to their member's interests.

Locality

The challenge in utilizing locality in business is the complex nature of the concept (cf. Cox, 1998; Pickvance, 1998). The central concept in locality research is place. According to Agnew (1987), place consists of three different dimensions, which are 1) location, 2) locale, and 3) the meaning of place. *Location* refers to the physical elements of place. It is a point in the universe, which has special relations to other points in the universe. *Locale*, then, includes a wider entity of social dimensions (both built and social) (cf. Berger & Luckmann, 1966; Durkheim, 1894 [1938]). *The meaning of place* refers to the subjective feelings attached to a specific place (cf. Brown, Lawrence, & Robinson, 2005). The meaning of place refers to the feelings it evokes to "insiders" (people, who live in certain place) and "outsiders" (people, who visit the place). Place also contains cultural and social meaning (Cresswell, 1999; Cox, 1998).

When institutions in certain place are studied, one should also notice the connections between them. In fact, locality can be defined as a context, in which the connections between institutions can be studied (Stacey (1969), quoted in Day & Murdoch, 1993). On the other hand, the central idea of locality is the continuing interaction between economic and social institutions in certain, physically and geographically defined area (Byrne, 2001). Accordingly, locality can also be understood as an interaction network composed of cultural and local physical closeness. Locality differentiates from global level on base of cultural and historical continuity and physical closeness, which is often based on concrete possibility of interaction (e.g., Soine-Rajanummi & Saastamoinen, 2002).

A central element in locality, and how it is experienced, is local identity. According to Castells (2000), identity is the description identified by individuals or groups of those attributes which they perceive most important. By

referring to those attributes he/she or they can answer to questions who am I or who are we? Identities occur in multiple levels (i.e. individual, group or national), but the common element that all forms of identity have contain content and boundaries (Rapoport, 1981). Local identity, and the construction of it, is closely connected to local community (Byrne, 2001). The concept of community is related to certain kinds of social networks. It also refers to those implications, that people attach to a place whose components they are (Williamson, 1982). Cohen (1985) continues that the (social) reality of the community depends on how powerfully its culture is experienced by its members. Individuals build up the community symbolically by making it storage for meanings and part of their identity.

Regionality

The basis of regionality is the regional structure, which is formed by individuals and their actions in different forms, as well as, land, ground and nature as a whole (e.g., Kultalahti, 1990). Regional structure creates the operational environment of individuals, including certain physical and social elements. According to Dicken & Malmberg (2001), regions can be seen as “containers”, which contain a combination of physical, social, political and economical features. Sack (1986), on the other hand, considers regionality as a strategy that notices the role of space and strives to affect resources and/or people by controlling a region. The strategy uses region in classifying and defining matters and acts by controlling entry to specific regions and out of them.

Anderson and O’Dowd (1999) maintain that regionality encompasses the active use of geographical space in classifying social phenomena, expressing limits of society, as well as, controlling and affecting resources, matters, information, symbols and individuals by restricting and setting some levels of control in the form of regional borders. Region and its social actors – individuals and communities – form a social wholeness, whose attributes are strongly dependent on people and communities that are close to each other. The symbolic meanings refer to the notion that, as a multidimensional wholeness, region is part of the social identity of people and communities acting there (cf. Dittmar, 1992; Kultalahti, 1990; Rapoport, 1981; Beaglehole, 1932). Besides that region builds up the social identity of people and communities, the physical and social environment create an operational environment, which affects the formation of opinions, attitudes, prejudices and ways of acting (Kultalahti, 1990).

In examining humans and the environment, the concept of “perceived environment” is used. It is considered as a mediator in relationship between individual and his/her “actual environment”. The

“perceived environment” contains the physical environment, which is felt as a relevant part of local environment by an individual, and to which the individual projects his/hers symbolic meanings (e.g., Repo, 1990; Kultalahti, 1990). Individuals also experience feelings of territoriality, which can be explained by the fact that both people and communities have a need to experience close interconnection with certain region (cf. Weil, 1952; Beaglehole, 1932).

The psychological attachment to the “perceived environment” develops through intensive interaction between people and the region (cf. Brown, Lawrence, & Robinson, 2005; Pierce, Kostova, & Dirks, 2001). People can feel ownership towards certain physical, social, and/or cultural entity by controlling it, becoming familiar with it, and investing their personal resources to it (e.g., Jussila & Puumalainen, 2005). Research on territoriality in organizations (e.g., Brown et al., 2005) has highlighted several attitude and behavioural consequences that are caused by the feelings of ownership for a certain region or place. One of these consequences is organization/community members’ desire to defend their own region, hold on to the autonomy of the region, and emphasize the collective identity of people living in region.

Finally we come to the question of how to outline the borders “perceived environment” (and region). According to Dicken & Malmberg (2001), the borders of a region can be either clearly defined or blurred. The same applies to organizations acting within a region; their borders and the definitions of them can be defined in various terms. Where the operating area of one firm ends, the operating area of another firm begins. According to Baradacco (1991), a firm can be seen as a dense network in the middle of network relations. As we move away from the core of the network the strength of the relation is decreased and finally we come to the point, where the firm has neither power nor influence: there is the border of the firm. The idea is basically the same for individuals. A certain environment satisfies the individuals need for efficacy and effectiveness, identity, and place. The region, that does not satisfy these needs is, in the individuals perspective, outside his/her “own region” (cf. Brown et al., 2005). In the following sections we reflect on our research for the role of locality and regionality in order to provide a sustainable context for co-operatives in the global market.

Context, data and methods

Co-operatives have often been labelled as “relics of the past”, which will vanish as globalization proceeds and competition gets harder. To the apparent surprise of

many experts on business organization, however, some of the latest results of research on co-operatives and globalization show that intense competition, along with the related uncertainties for nations, regions, and employees, seems to increase the relative performance of co-operatives (cf. Skurnik, 2005; Casadesus-Masanell & Khanna, 2003). Finnish customer owned co-operatives, for example, have been able to preserve their efficiency in the globalizing economy and gain a larger market share during the last decade.

In this paper, we focus on S Group on the retail sector, OP Group that operates in banking and insurance, and POP Group that operates in banking. S Group consists of 22 regional co-operatives and central organization SOK (owned and governed by regional co-operatives) and the subsidiaries of it. S Group is the market leader in daily consumer goods, and its business include food and groceries, dry goods, hotels and restaurants, hardware, agriculture, automobiles, service stations and welfare services (Neilimo, 2005; www.s-kanava.net: accessed 13.4.2006). The regional co-operatives are owned by the customers (about 1.5 million) of their regions. Regional co-operatives provide services and benefits to the customer-owners in their regions and support the economic and social well-being of the region. OP Group, the biggest financial group in Finland, consists of 236 local and regional co-operative banks, central co-operative (OPK) and central bank (OKO Inc.). OPK is owned and governed by local and regional banks, which are owned and governed by their local and regional members (approximately 1.1million). Co-operative banks provide banking and financial services to private customers, firms and communities. (www.op.fi: accessed 24.4.2006). POP Group, which was separated from OP Group in 1997, consists of 42 local, independent, and self sufficient co-operative banks owned by their members (app. 80, 000). POP Group has a central association (POPL) that helps to arrange collective activities and communication among the banks. These banks also provide banking services to private customers, firms and communities (www.paikallisosuuspankit.fi: accessed 13.4.2006).

The data of this qualitative study (e.g., Denzin & Lincoln, 1994) was collected by the authors during the years 2004 and 2005. First, in spring 2004, we interviewed three co-operative researchers on the themes of co-operation; its definitions, core concepts, as well as, history, present state, and future. We also collected and analyzed extensive amount of literature, including books on co-operation, unpublished non-scientific studies, personnel magazines (years 1974-2004), and annual reports. Then, during summer 2004, we interviewed

eleven experts of co-operative organization (managers and members of board) in central units and local co-operatives. We used the so called "snowball" sampling procedure (cf. Duerr, 2004, Greenwood, Suddaby & Hinings, 2002), in which the persons to be interviewed was based on recommendations of previous interviewees. In summer 2005, we collected more data by interviewing one co-operative historian and nine CEOs in S Group, OP Group, and POP Group. In those interviews the core themes of this paper were emphasized. During the interviewing process the interviewees recommended and /or handed us more archive materials to be analyzed in our study. In sum, data consists of 24 interviews with CEOs, elected officials, and other experts of co-operative organization, as well as, extensive amount of literature and other archive material on the co-operatives in the study.

The data was first studied systematically in order to understand the context of our study and achieve preliminary understanding of locality and regionality in the co-operative business. After this the data was organized under different themes and analyzed in detail in order to reach the objectives of the study. To increase reliability, all three writers analyzed the data both together and separately.

Analysis of locality and regionality in co-operative business

Organization of co-operative business

In the data analyzed in this study, co-operation is often described as "*capitalism with a human emphasis*". According to our interviewees, co-operatives operate under normal conformities to "economic laws and market forces". On the other hand, a co-operative is considered to differ from those forms of businesses that are based on individualistic definitions of ownership. The aim of its operation and the indicators of its success are different compared to, for example, public limited companies. For example the mission of S Group co-operatives is, according to our interviewees, to develop the economic and social welfare of their regions, to enhance the economic and social wellbeing of their customer-owners, and to provide or organize (lacking, but needed) services to customer-owners in their regions.

In sum, the advantages of ownership can be either direct, as the advantages of using the services are, or indirect, as belonging to the regional community that benefits of the economic activities and support by the co-op is. According to our data, locality and regionality are essential factors in the activities of Finnish customer owned co-operatives. A sample of a

discussion from the year 1899 between two pioneers of Finnish co-operation shows that this is not a new phenomenon (see Skurnik, 1994):

"...co-operative organization...first, links individuals to each other locally...then local co-operatives must in order to succeed, create central units for co-operatives of the whole country, which in turn, as strong economic institutions influence the local co-operatives"

Although the meaning of locality and regionality in co-operation has changed over the past century and new technologies have emerged the form of organization presented above has remained strong in the Finnish co-operative groups. According to our data, there has been a historical way of thinking in the S Group that its organizational structure should follow the organization of the provinces in which they operate. In OP Group, in which an intimate knowledge of customers has been valued, the ideal area of operation for a co-operative bank has been defined as the area *"that can be seen from the church tower"*.

According to our research data, social transformations, such as regional concentration, have complicated the possibilities of co-operative business in regions, where population is reduced due to migration and solvent demand decreases. According to interviewees this has been a great challenge especially in the last couple of decades. Some however state that co-operative banks turned this development into an advantage during the urbanization process in the 1960s and 1970s. According to CEOs of co-operative banks, continuing migration sets some challenges for co-operative businesses and their organization in the future as well. Examples of possible ways to rise to the challenge are the ongoing mergers of local co-operative banks to bigger regional co-operative units. In S Group, according to our data, co-operatives have been able to respond to the local needs by increasing efficiency through the development of nation-wide chain organizations, owned by the regional co-operatives.

The co-operative managers interviewed in this study see the IT revolution as a challenge for local and regional co-operatives. More specifically, the managers of co-operative banks state that when customer relationships are managed via Internet and there are high operational costs, then the meaning of locality is definitely changing. In the past, one of the core elements of locality was daily interaction between bank or shop employees and their customers. Managers looking back interpret that this interaction was essential for the emergence feelings of community and the construction of local identity. Nowadays there is a fear, that e-business will dissipate both individual and collective identity.

However, the transformation of locality and regionality does not mean that their role in co-operative business will be disappearing. Consistent with academic literature (e.g., Schell & Reese, 2003) many of the interviewees saw also opposing forces in that the development. Despite the social transformation and the internationalization of their business environment, co-operatives have been able to maintain local or regional touch in their operations. E-business has still not been able to gain such an important role in any line of the examined co-operatives. There is always a need for local interaction between customers and employers. This is relatively important, because according to interviewees the competitors of co-operatives have, often consciously, reduced the level of locality of their operations.

Locality and regionality as contributors of acquiring information and understanding of the business environment

In literature on the case organizations (e.g., Neilimo, 2005; Herranen, 2004; Kuusterä, 2002; Lahti, 1996), one of the most central missions of co-operatives was the identification of local needs and responding to them. In order to succeed in this, a deep understanding of the business environment is needed. The CEOs interviewed maintained that locality and regionality are central success factors of co-operative organizations. This was explained by the fact that without a deep understanding of the business environment co-operative retailers can not integrate their strategies to fit to the environment (cf. Hodge, Anthony, & Gales, 2003).

According to our interviewees, one key advantages of being local or regional is the possibility to utilize customer knowledge. When customers and owners of the firm are known, their wishes can be better catered for and also business can be developed accordingly. This idea is well illustrated by the following representation produced by a CEO of local co-operative retailer:

"... the strength of it (locality) is that the wishes of the customers can be more personally catered for than in bigger units. We can understand the customers better...we know our customers, I claim, better than in bigger units do..."

The interviewees of co-operative banks noted that in business there is always risk present (cf. Drucker, 1958). In our data it was generally put forward that co-operatives are a form of decreasing risks experienced by its members. According to some archive material, the personal knowledge of loan applicants' circumstances was a risk decreasing factor in local banking at the beginning of the 20th century. The interviewed CEOs maintain that good local knowledge remains helpful in

decision-making. What results from being local is that the customers are well known – often including the history of their whole family. According to one of the interviewed experts, a crucial locality-related advantage is that in local co-operatives there are fewer problems related to asymmetric information than in non-local alternatives:

“... The strength that rises from the fact that every actor of the environment is known is still valid at some level; and of course it decreases the problem of asymmetric information...”

According to our interviewees, the network structure of the case studies, i.e. the clear division of work between the central unit and the regional or local co-operatives allows their knowledge and understanding of the external business environment to be better than their competitors. In regional co-operative retailers, for example, this division of work which aims to implement their mission has also been differentiated within the regional network. As one of the interviewees stated:

“...I am almost all the time rubbing elbows with what is happening in the region, as I said, we have our own network at the regional level, when these towns are the working area of the local manager then we are strongly connected to these municipalities ...”

In many of the interviews we conducted, the role of top and middle management in acquiring and updating this knowledge was emphasised. Yet, also the role of others (i.e., board members and owner representatives) participating in the decision making of the co-operative was considered important in providing relevant information. In addition, the following accounts seem to be consistent with the academic works (e.g., Gelatkanycz & Hambrick 1997) stating that the external ties of any organization serve as conduits for information from the environment and therefore also support strategic decision making:

“The strength is, ..., that the decisions are made locally, where we have advanced knowledge of the local environment. We believe that in this way it is possible to make better decisions compared to the alternative of making these decisions somewhere else.”

“...and then the decision-makers of the co-operative are familiar with the development strategies thus when local government introduces proposals and when planners of the city do something these actions do not come as a surprise to the manager of the co-operative”

In several co-operative retailers and banks, the active, widely experienced board members made a significant contribution to the strategy work of the firms, and the network of the owners representatives can also be seen as an important resource (cf. Daily et

al., 2003). Managers' and other senior staffs' knowledge of the business environment ensures that the co-operatives strategies and operations are appropriate (cf. Leifer & Delbecq, 1978).

Locality related closeness, collectivity and permanence as success factors

According to our interviews, one of the advantages of locality and regionality in management of co-operatives results from geographical proximity. According to Soine-Rajanummi & Saastamoinen (2002), locality differentiates from the global level on the base of cultural and historical continuity and physical closeness, which is often based on a concrete possibility of interaction. According to our data, the possibility of interaction can be considered as a physical closeness-related strength. In co-operative banks, for example, there is a possibility of personal contact between customer and the manager who makes loan-decisions. According to Leifer and Delbecq (1978) the organizational structure partly affects to whom the information about environment goes and how it can be managed.

In the management of the examined co-operatives the personal contact between the customer and the decision-maker can be seen as an advantage offered by locality, even nowadays and despite the efficient information transferring technology. For example, a CEO of a regional co-operative bank stated that:

“...as a practical example, we can think about a local customer (firm), who needs a kind of decision that can be made in this room but with our competitor it has to be made for instance in another country...if the entrepreneur wants, he can come to this room and give some background information concerning for his project. Our competitors, on the other hand, has to send the papers or electronic data to some other city or country...”

The advantage of physical proximity seems to become concrete in the management of co-operatives, because local decision-making is faster compared to non-local. A CEO of local co-operative bank of the POP group considers the advantages as follows:

“I guess that if we think from a customer point of view, the most important thing is that the answers to whatever questions are given immediately. Locality and local decision making means that customers do not need to leave the room without an answer...in my opinion this is the most concrete and practical side and a significant competitive advantage, we have lots of customers who have come to us from other banks because they did not get answers to their questions even

though they waited for weeks... but if you come to us you will have the answer when you leave”

According to our data, there is another locality and regionality related strength for co-operatives as well. This has to do with the notion that regions construct the social identity of people and communities operating within them (cf. Kultalahti, 1990). The regional identity has influence upon the community members' attitudes towards the world outside the region. In addition, people can have a feeling of belonging to their region. An organization strongly identified with the region will also attract similar loyalties which may have positive implications on individual employees and members attitudes and behaviors (cf. Brown et al., 2005; Pierce et al., 2001). Some of the top level managers of S Group put it as follows:

“... When the use of services is related to performance and the business idea of a co-operative retailer (to produce services and benefits), it becomes concrete by this kind of regional operating model...the differentiation of the company ... when it is made regionally, produces a stronger bond with its stakeholders...”

“...essential is also that the members of the regional co-operative retailer feel that it is their own firm, because it is regions own company and participates to the development of the region...”

According to some co-operative managers interviewed, managers of co-operatives can strengthen the local or regional identity of the co-operative by acting as part of the community (cf. Castells, 2000). This may create circumstances, in which the customers feel that they are psychologically and socially more close to the local or regional co-operative than to its competitors, whose decision-making is, as well as its identity “located” somewhere else. The managers interviewed see that this can further the possibilities of success in business, because the customers are more committed to the co-operative bank or retailer than to their competitors.

There is also a time-related dimension of locality. According to the literature on territoriality (e.g., Brown et al., 2005), it takes time and continuous interaction for someone to become familiar to a certain place or region. Permanence and locality were linked to each other also in the minds of our interviewees. One local co-operative bank CEO in POP Group explained the phenomenon and its relative importance for the co-operatives as follows:

“We have permanent people here (employees and managers) and so we know the backgrounds of firms, communities and households and therefore we are able

to make decisions faster and more easily than in national firms, in which ‘the roulette wheel spins’ and managers are changed. I have been here for 11 years and during that period the managers of our competitors have been changed many times and therefore they never get to know the locality and the local business environment. “

In our data, there were also other long term development related issues raised related to locality. Our interviewees compared, for example, the operations of co-operatives to those of limited liability companies with their hectic atmosphere based on short term quartile results. The interviewees described the strategic management of regional and local co-operatives with the word *patience*. A CEO of a regional co-operative retailer explained the connection between regionality and patience for management as follows:

“Regional co-operatives cannot be managed in the same way as capital based firms. We have in our management to pay attention to the development of the region in the long run. The success of the co-operative retailer and, by the same token, also the success of the owners totally depends on the wealth of the whole region. Therefore, in the strategy making of a co-operative, a quartile is a quarter of a century.”

The above statement is consistent with the agreed role of the regional co-operative retailer in the S Group network. In the data we analyzed, there are frequent references to co-operatives having a social responsibility. Many of our interviewees also put forward the concept of so called “regional responsibility”.

Local and regional influence as a success factor

In our data, it was frequently stated that locality and regionality help co-operatives to adapt to the environment and to respond to the needs of their customers. However, other significant advantages were also found, when co-operatives were compared to their national and international competitors. According to the co-operative CEOs interviewed, locality and regionality provide extensive possibilities for co-operative executives and board members to influence the business environment, instead of simply adapting to it (cf. Weick, 1969; in Leifer & Delbecq 1978). For example in the S Group, the implementation of the mission of regional co-operatives calls for the CEO to take an active role in furthering the collective interests of all the stakeholders in the region. As one S Group co-operative CEO put it:

“...through the work with different local and regional interest groups, and this is very much a part of his own job description, the CEO takes part in different local and regional organizations. In this wider context, the

management of the co-operative play an active and strong roles in various regional forums..."

"As a leading regional organization the co-operative sees It as a priority to affect, act and support the fair development of different parts of the region, localities, municipalities and cities and increase the appeal of the region... this development affects directly the success of the co-operative and here we have the co-operatives main motive... If we are going to succeed in the region therefore, we have to act and have a bearing in this region, develop it and not just talk about it..."

As presented above, the role of co-operative managers provides possibilities for them to contribute to the success of their regions, and through this to the success of their own organization as well. This can be regarded as consistent with co-operative principles. Part of co-operatives' mission is to work for the sustainable development of their communities and to do this in accordance to their members' interests. Thus, the above described behaviour is important from an ethical and an economic point of view. Typical of most of the interviewees explanation of their regional responsibilities and role is the comment below by the CEO of local co-operative bank:

"We do a lot of socially responsible work, which is part of the co-operative principles, and everything that we do does not always aim to economic success, but it is about customer businesses being handled with special care...and we invest in different things. We can put money to a skateboarding field or to common marketing of sites with the municipality and some cultural activities..., the main thing is not that we will earn money but in the long run I believe that it will also be useful for us economically."

There were some inconsistencies in some statements on regional influencing. A younger CEO stated that regional influencing should not be included in the job description of a co-operative CEO. He considered regional influencing something that should belong to other decision makers in the region. The CEOs who have taken the active role considered this "new leadership culture" promoted by "new generation managers" as a considerable future challenge for co-operatives. As is stated in this paper, regional influencing has been regarded not only as an important responsibility, but as an important success factor as well, which the new generation of managers is willing to give away. On the other hand, in some interviews conducted in the central units of S Group and OP Group these "less authoritarian ambitions" of the younger CEOs were looked at positively. The "new

style" was considered to fit well to the network form of the group, which calls for collective leadership.

Conclusions

In this paper we have analyzed co-operative business and management employing the concepts of locality (e.g., Byrne, 2001; Cresswell 1999; Cox, 1998; Pickvance, 1998; Agnew, 1987) and regionality (e.g., Dicken & Malmberg 2001; Anderson & O'Dowd 1999; Kultalahti, 1990; Sack, 1986). Our research indicates that locality and regionality are significant elements of co-operative management, which contribute to their success. The organizational structure that provides co-operatives with physical proximity to the business environment enables a direct interaction between co-operative decision-makers and various local and regional stakeholders.

Thus, the organizational structure that emphasizes regionality and locality permits co-operative decision-makers to have access to essential knowledge, as well as, a deep understanding of the business environment. These consist of the knowledge of customers' and other stakeholders, including local and/or regional institutions, as well as, understanding of those stakeholder interests and the special characteristics of the region that one should focus on. This helps co-operatives to fit their (business) strategies to the environment and gain advantages over competing firms that are managed from outside the regions (cf. Grant, 2005; Mair, 1997).

Locality and regionality also enable the so called "fast schedule operations", as decisions can be made locally and without the inflexibility of multilayered organizations. Being local or regional also enables co-operative managers to engage in direct long term interaction with significant parties participating in the construction of the entrepreneurial environment. When they participate in regional development, which can be considered to be consistent with co-operative principles, co-operative CEOs are also looking after the interests of the owners of their organizations. Being active in the region helps the development of business and business models. In addition, it is easier to be prepared for changes in the business environment driven by regional institutional based priorities.

There are also several references in our data that are consistent with the idea that co-operatives may be considered as maintainers and constructors of local and regional identity. We also found that, both social and psychological aspects of ownership were associated with co-operative ownership (cf. Brown et al., 2005;

Pierce et al., 2001). Co-operatives were considered to be important to regional people as they feel they are their own organizations.

Implications for future research

During our research process a couple of important topics for future research emerged. First, it seems that locality and regionality have been analyzed from at least three points of views. The psychological approach (e.g., Brown et al., 2005) emphasizes territoriality and peoples need for their own place. A so called social-constructivist approach (cf. Castells, 2000) is related to the social construction of locality and local identity, which is a creation of an ongoing interaction between local social actors; including firms and institutions. The economic-institutional approach (cf. Dicken & Malmberg, 2001) emphasizes the institutional structure of the region and regional economy. Our idea for future research is to outline these dimensions. We believe that this would help us as well as practitioners of co-operative institutions to understand locality and regionality. A second related topic is the localization of business strategies, which seems to be an interesting and current topic of research (cf. Grant, 2005; Mair, 1997).

Previous research has paid little attention to is the idea of co-operatives as networks. Yet, as implied above, networking seem to provide co-operatives with significant efficiency that in part sustains their current local and regional structure. Another key topic of future research seems to be co-operative managers' role in helping their organizations adapt to institutional changes and, on the other hand, participating in maintaining and altering local and regional institutions.

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Member Participation and Relational Contracts in Agribusiness Co-operatives in Brazil

Sigismundo Bialoskorski Neto

Abstract

The institutional environment and uncertainty may influence the contractual design of producer-owned and controlled organizations in agribusiness. In Brazilian co-operatives, it is possible to observe more informal and relational behavior than formal written contractual relations. This essay discusses and explains why informal and relational contracts occur in co-operative organizations and searches for the logic of this kind of contract. A factorial analysis of empirical data shows the importance of co-operative economic performance for improving member participation and member relations. The paper concludes that informal and relational contracts may improve *influence rights* as residual rights in co-operatives that can minimize transaction costs in an uncertain institutional environment.

Key words

Relational Contracts, Co-operatives, Culture, New Institutional Economics

Introduction

Given an unstable institutional environment written formal contracts could be seen as even more appropriate. But, in this condition, uncertainty could also create high transaction costs for written formal contracts. It may be the case that informal relational contracts may complement or replace formal contracts. North (1990) explains the importance of institutional environments for the foundations of economic development, organizational architecture and business transactions. The institutional environment in Brazil can be characterized as functioning within an inflexible legal system and a low trust in justice with people preferring to trust others on the basis of their informal word. (World Value Survey 2003, Bialoskorski Neto 2004a) This influences the nature of contracts in co-operatives when one considers enforcement mechanisms in relation to informal and formal aspects of contracts.

In Brazil people will be more careful in their business transactions and will behave in ways to protect their transactions from current and future cases of opportunism. Improved forms of contractual safeguards

using formal contracts is not sufficient to guarantee transactions making relational and informal arrangements important in the Brazilian case. Demsetz (2002) argues that increased risk makes people more hesitant to accept the dependency that comes with formal written contracts.

For instance, as a function of social and economic uncertainty, contractors may desire non-formal committed or non-formal contractual relations, in this case informal relational contracts could be more acceptable. Co-operatives in Brazil are characterized by the limited use of formal contractual relations and a more extensive use of informal relationships. Co-operatives in Brazil could be considered relational organizations.

This is an important topic because co-operatives in Brazil do not currently show signs of evolving towards more defined property rights structures through formal contracts, in contrast to co-operatives in other countries that are increasingly concerned with organizational architecture to improve formal contracts and solve problems of vaguely defined property rights. The proportional variation in the balance between formal and relational contracts may result from culture and the institution context (Hofstede, 2001 and North 1990) Social and exchange value uncertainty and the role of formal contracts in improving self-enforcement in relational forms (Lazzarini, Miller and Zenger, 2004).

The paper will therefore discuss the use of informal relational contracts in co-operatives in Brazil and try to answer the question of whether this characteristic is important to member participation and the impact if any of informal contracts on co-operative economic performance. The initial hypothesis argues that there is a particular logic in informal relational contracts and this type of contract reduces transaction costs. Trust and social embeddedness are only two of all of the important characteristics. Others such as residual influence rights that let members receive benefits within the organizations, resulting from *residual control rights*, are also important to understand relational contracts in co-operatives.

Institutions and property rights influence in co-operatives

Social norms shape institutions that both constrain organizations and present opportunities to them. Thus,

organization occurs to access opportunities in a particular institutional environment (North, 1990). In a co-operative, a collective organization, the degree of interaction among economic agents and the allocation of property rights is important and can determine the organizational design and the probability of economic success. Hofstede (2001) argues that when collectivist society behavior values prevail, there is more moral involvement among members inside of organizations and more emotional dependence by members on their organizations. When individualistic behavior prevails, there is more calculative involvement and self-orientation in organizations. The same author suggests that organizational design can be explained as a result of mutual sympathy in a more intense collectivist society such as in the case of Brazil.

Furubton and Richter (2000) define property rights as the rights to use assets, to obtain income for assets, or to transfer assets. When the assets or the rights are transferred between economic actors, there are transactions costs. The allocation of property rights, in the presence of bounded rationality and contractual incompleteness, cause residual control rights and residual claims. In Brazilian co-operatives because of the vaguely defined property rights (Cook, 1995) there are more intense residual control rights, and if there are not clear rights in co-operatives on the residual income – typically in situations of equity redemption or in incomplete patronage refund programs – there are an increasing emphasis on residual claims.

Vaguely defined property rights result in high residual rights of control, decision and claims, and can increase problems with incomplete contracts as well as create difficulties in writing efficient contracts. Problems in defining property rights also occur because of the bounded rationality of economic actors and contractual incompleteness may expose contractual relations to the risk of opportunism. Furubton and Richter (2000) state that relational contracts can be understood as contracts that do not try to take into account all future contingencies. Such a contract contains implicit, informal and nonbinding characteristics. Transactions mediated by informal contracts must also contain bilateral dependence between contractual parties. These authors explain that it is necessary to understand bounded rationality to analyze contractual incompleteness. Because it is impossible to agree ex-ante on all future eventualities, the situation of incomplete contracts incurs high transactions costs.

Baker, Gibbons and Murphy (2002) argue that relational contracts, such as informal agreements and unwritten codes of conduct, affect the behavior of

individuals within firms. A third party must verify a formal contract, but relational contracts based on outcomes are seen only by contracting parties and are self-enforced. Lazzarini, Miller and Zenger (2004) argue that there is a complementary task between formal and informal rules, or that incomplete contracts complement informal dealings. Thus, low cost contracts are an important mechanism to support co-operation. Another important fact is that contracts facilitate the self-enforcement of non-contractible dimensions, and there is not evidence that contracts can be substituted for social norms.

Relational contracts are long-term agreements between contractual parties that do not have a formal writing party and are enforced by the parties in a “private ordering” and not by a third party or in the presence of a court. Williamson (1996) argues that “private ordering” is used in the environment of incomplete contracts and is self-created and self-enforced. For informal and relational contracts, self-enforcement and mutual trust are important tools. The first guarantees the enforcement of unwritten rules, and the second guarantees the transaction in the future (Lazzarini, Miller and Zenger 2004). Granovetter (1985) discusses the “shadow of the past”, which occurs when two parties interact throughout a long period and create norms, attachments and trust. The economic agent’s reputation occurs is built upon information about past behavior. Also, if organizations have social embeddedness, defined by Granovetter (1985) as a social acknowledgment and link among actors, trust is generated and malfeasance is discouraged.

Co-operative organizations, on the other hand, may also have an advantage in its social embeddedness, because some of the members of a specific community know the generations of families, past behavior, and the social needs in the future, for each actor or member. This argument enables a reduction in transactions costs, as well as in contractual opportunism, moral hazard, hold up and adverse selection. In the same line of thought, the co-operative is a consequence of social capital and can improve social capital and reduce the asymmetry of information in the community (Bialoskorski Neto, 2001).

Co-operatives in Brazil

In Brazilian co-operatives the member is the owner, the member is the patron, and the benefits of the co-operative belong to the members. In this type of organization, the members given the same rights within the organization, such as the right to vote, with one vote going to each member and the right to participate at some level of decision making in the general assembly;

if the member is selected, he can also participate at management levels. All members have the right to use services, obtain production, information, technical assistance, or acquire inputs, among others rights. Members manage co-operatives, or only rural producers that have exclusively rights to participate on the board and the rural producer president assume the direct co-operative management.

Therefore, there is not a separation between ownership and management, the board represents a party of active associates, can decide to further their own objectives or present proposals to the entire membership for voting. Traditional co-operative governance is based on long-term relational contracts between members and the organization. The member can put his production in the co-operative and buy inputs through the co-operative or not. The co-operative offers prices and services.

The co-operative organizational mission in Brazil is frequently improving the member income by offering better prices on time for the agricultural commodities or for the inputs in the stores, and offering free services such as technical support, market information, credit, special rural development programs, or services at cost like soil chemical analyses, satellite production monitoring, among others. In this case the co-operative tries to improve members' income immediately on time and does not make patronage refunds or distribution of financial outcomes to member. The benefits for the members are evident in prices, services, information and technology, or there are the non-price returns in quality of services and a non-cash return in services.

Because these management and organizational characteristics, without boundaries between ownership and management, the gap between the board and the employees or professional managers exhibits high residual decisions and control rights. These rights permit the employee to use the assets without a contractual control to improve benefits to members. In this situation residual decisions and control rights are used as "common" assets. If the member actively participates in general assemblies, councils or committees and participates in the co-operative, as a socially committed member, he also has the *right to influence* the employees to receive more benefits, attention, priority, or information than the member who is not socially committed and has does not participate.

On the other hand, this commitment to participate incurs costs for the member; such as transactions costs, costs of participation, and costs to create social relations; economic logic implies that the benefits from having influence and being able to exercise the rights to residual decisions and asset control rights must be great and significant enough to encourage the member to adopt such behavior and its associated costs.

The benefits of *influence rights*, defined as the rights to influence the use of residual decisions and asset control rights, are important incentives for forming relational contracts through participation, increasing influence in proportion to the informal relational contracts. This can promote a different motivation and level of membership commitment. On the other hand, if the co-operative shows economic performance efficiency the member should not spend his time and resources to participate or increase his influence. Therefore, it is possible to consider the logic of *influence right* as a specific arrangement to minimize transactions costs, to permit the informal relational contracts to flow freely. Additionally influence rights serve as a contractual incentive to members' participation in the co-operative organization.

Relational behavior, participation and economic performance

To try to find more evidence related to participation, a factor analysis was completed. Factor analysis identify factors, or underlying variables, that explain the pattern of correlations within a large number of observed variables, is also often used to identify a small number of factors that could show the variance observed in a larger number of variables. The initial hypothesis is that member participation in *educational committees*¹ at the community level increase relational behavior as well as relational informal contracts. If the co-operative organization improves its economic performance, the co-operative yields greater economic externalities and income to members – welfare – and the member does not have an incentive to create an informal relational commitment to have an influence right to use residual decisions rights, and participation could decrease. A mathematical model, using a game theory approach to examine this model and explain this hypothesis can be found in Bialoskorski Neto (2004a)

¹Educational committees on the community level are special local meetings of member s geared towards improving participation, increasing levels of information, and creating a local opportunity to discuss co-operative problems. All local members may participate in committees.

² SAC – Sistema de Acompanhamento de Co-operativas – Co-operative Monitoring System

³Kanitz financial index is used, in Brazil, to audit and verify the financial situation of organizations. This index is formed by different financial weight information, as debt ratio, own capital, liquid ratio, among others. This is a variable with continuum value. High value of Kanitz index better is the financial situation of co-operative organization.

In the case where the benefits from free services and prices created by the co-operative are sufficient, the costs of participation may be higher than the benefits of participation. But if the co-operative organization has a lower economic performance, the member may need to improve his relational commitment in order to increase his access to free services to better commercial relations. In this situation, the benefits of influence rights could encourage informal relational contracts and stimulate member participation. This logic explains correlations among economic performance of co-operatives and the intensity of member participation, in the general assembly and/or in educational committees at the community level, and the probability of creating relations and informal commitment in the co-operative organization.

Participation can result from member economic activity in co-operatives stemming from the intensity of free services like technical assistance from agronomists who are responsible for the direct relations between the organization and its members in rural areas, which can improve participation and relational commitments. Another important function for participation is the proportion of members associated with the co-operative among all regional farmers; this characteristic shows how important the co-operative is locally and can also show the distance between the member and the co-operative organization. A final important function is the proportion of regional agricultural products delivered to the co-operative. If this proportion is high the monopsony power of the organization is also high and can influence participation as well. If there is more monopsony power, there is less need for participation.

The data analyzed is from the Co-operative Monitoring System² from the Organization of Paraná state co-operatives. This is one of the oldest systems in Brazil with ten years of experience in monitoring the agricultural co-operatives in agribusiness and collecting data. The data was chosen only from primary co-operatives, excluding all central co-operatives (federated) and only the co-operatives that demonstrated experience in data collection with a coherent data series. These agricultural co-operatives are among the most important in Paraná state, Brazil.

The variables are the proportion of member participation in the co-operative annual general assembly – **PASSAGO**; the proportion of member participation in the educational committee – **PASSCMT**; the proportion of member economically active in the co-operative **PASSATV**; the proportion of free technical assistance to the producers in the economic performance area **PTECASS**; the proportion of

members in total farmers number in the performance area **PASSPDT**; the proportion of agricultural products delivered to the co-operative out of the performance area total **PTPDAC**; the proportion of inputs sold by co-operative organization out of the total of the performance area **PINS**.

The financial variables are given by the economic performance of the co-operative represented by the “Kanitz” financial index³ **KNT** (when this index is high, the co-operative organization has a better financial situation, and if this index is low the co-operative organization has a worse financial situation); by the results – patronage – retention **RETSBRA** and capital retention in co-operative operations **RETKPLA** (represents internal capital or the internal capitalization process). The statistical methodology of factorial analysis, shows three different components – factors – or underlying variables –, for this paper the most important component is the third factor, which shows the correlations among some variables and the participation in educational committee at the community level. This participation in committees yields a positive correlation with free services in technical assistance, and with the capital retention (or capitalization process with internal capital), and a negative correlation with Kanitz financial index. Another factor, the second, shows participation in the general assembly with a negative correlation to the Kanitz financial index.

These observations can partly explain the proposition that if the co-operative organization is in a stronger financial condition and the likelihood of positive economic performance is high with an expectation based on past record of positive member benefits then member participation goes down in committees and general assembly. On the other hand, if the co-operatives economic performance is low the benefits to members probably decrease, but the member participation in their organization increases. This situation can create influence rights to get free informal benefits.

The results show also that the presence of high proportion of agronomists and free technical assistance – rural extension – is very important to create relations and increase participation in local committees. This correlation is important because it could describe the creation of relations in co-operatives, between the member and the rural extension service that encourages relations among members through educational committees.

The number of members is also important. Figure 2, shows the relation between the number of members in

co-operative organizations and the relative participation in the general assembly. The relations are a logarithm function and if the co-operative has a larger number of members, the tendency of proportional participation is lower. In this situation, the importance of local area committees is major. This situation is probably due to the fact that if the co-operative has a large number of members, the division of decisions rights is high too. Each member has only one vote, but this vote does not have the same value as a vote in a smaller co-operative, with fewer members.

In the case of co-operatives with a greater number of members, there are probably serious problems with monitoring the action of their members. The residual decisions and control rights are greater and the benefits of influence rights are higher too. In this case, a lower participation can create a lower informal relational commitment with the co-operative, and the member that maintains the commitment must receive more benefits from this option. The co-operative organization has the same services and facilities for all members, but only the relational committed member has the rights of influence and the rights to received differential benefits in services or information. This model shows that there is a logic to relational commitment or influence rights to obtain the benefits to use residual control and decision rights. So, the value of informal relational commitment depends on the benefits of influence resulting from the degree of residual control and decision rights.

Conclusions

Co-operatives in Brazil show intense informal relational contracts with few formal contracts in an environment of social and economic uncertainty. These organizations show evidence of vaguely defined property rights, few formal contracts, and improve informal relational contracts. There is a particular logic in informal relational contracts that could permit a particular governance system. Relational informal contracts may promote the commitment in proportion to *influence rights*, the member should spend his time and resources to participate or increase his influence only if the economic benefits are significant. For these members, *influence rights* to use residual decisions and control rights are important to guarantee participation in the co-operative organization. The co-operative organization offers the same services and facilities to all members, but only the relational committed members have the rights of influence and the rights to receive differential benefits in services or information.

The factorial analyses model explains this situation, which occurs with more intensity if the co-operative organization has problems in offering contractual based benefits and services as a function of the worse economic performance. It is also possible to consider that only in the presence of vaguely defined property rights, will residual control rights arise and increase *influence rights* to refund, in free services for a special class of members, the special relational commitment. Also, in presence of

Figure 1. Representation of variables in three-dimensional space created by calculating 3 factors

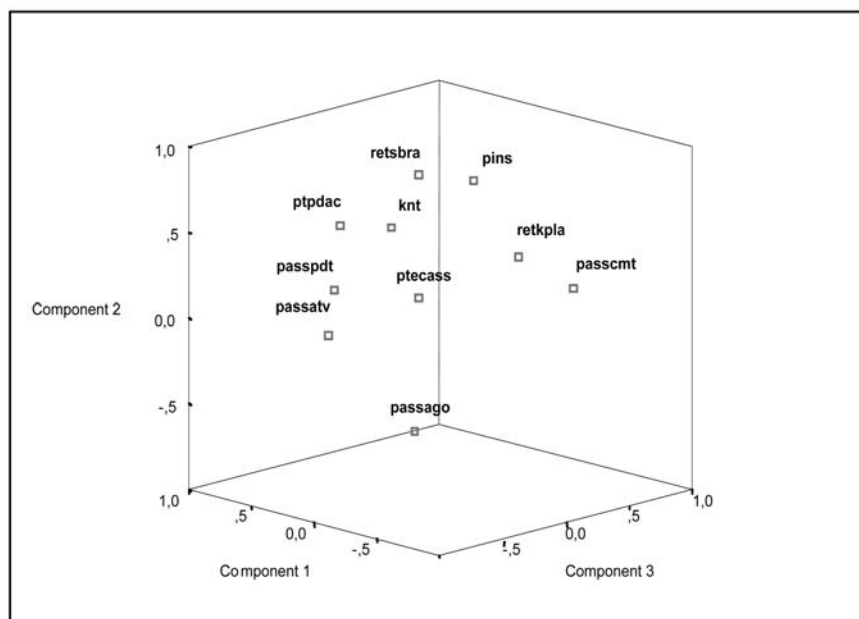
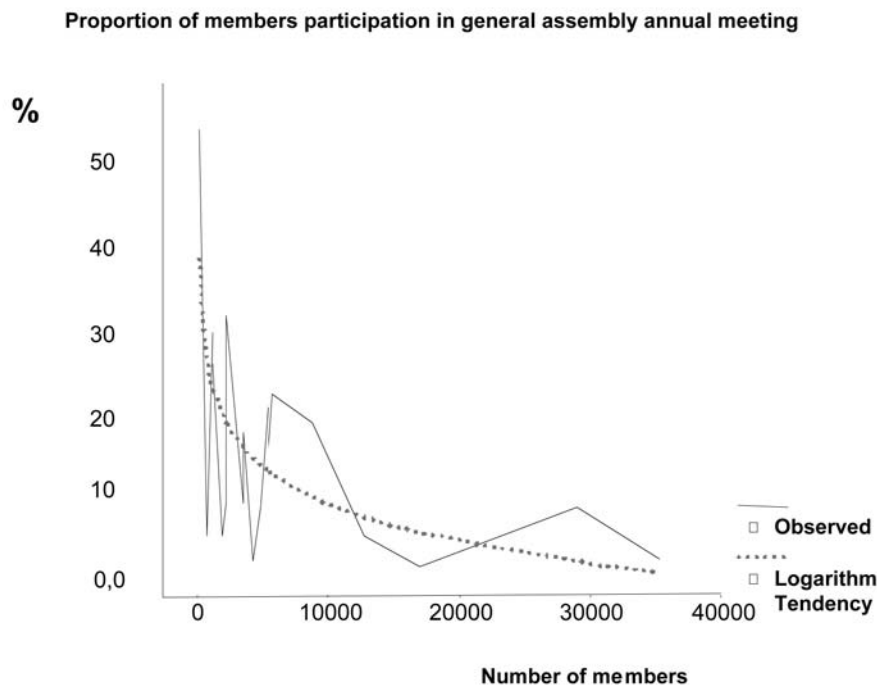


Figure 2. Relations between co-operative member participation and number of member in co-operative organizations for the 20 Paraná state, Brazil agricultural co-operatives. The trend line is a logarithm function.



uncertainty informal relational contracts may minimize transactions costs and governance costs in particular institutional environments.

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Co-operation to Introduce a Supply Chain/Consumer Focus in Farmer Controlled Businesses (1)

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Abstract

This paper assesses the effectiveness of the traditional models of co-operation and analyses best practice in collaboration between farmers seeking to gain significantly greater scale and flexibility in an increasingly global food chain. By drawing upon broader strategic management thinking and relevant international practice, the study seeks to identify new models for farmer collaboration. The proposed models address most of the barriers identified during the primary research and the literature review, that are acting or could act as limitations for the competitiveness of UK Farmer Controlled Business in a Global Food Supply Chain.

Key words

Competitiveness, Farmer Controlled Businesses, Global Food Supply Chain, Models of Co-operation, Strategic Management.

Introduction

The starting point for this study is the recognition that the business environment of the food and farming industry is becoming increasingly international, competitive and complex. Existing forms and attitudes towards traditional business co-operation in the UK farming sector will continue to be insufficient to gain

adequate market power and profitability within an increasingly competitive global food and farming industry. UK farmer collaboration needs to address the global scale of the food supply chain and in doing so is likely to require a radical re-think of the most appropriate business structures and alliances.

This paper begins with an enumeration of the objectives of a research project being conducted at the Royal Agricultural College, UK (RAC), followed by a description of the research procedures and summary of the principal findings. The situation for the international, European and UK food chain is described in terms of concentration, retail power and Farmer Controlled Businesses (FCBs) in Europe and the UK.

A review of the published work on co-operatives or related collaborative ventures is presented in three stages. Firstly, the need for a change in FCBs is addressed. Secondly, ideas from post-modern strategic writers are introduced. Finally the nature of the changing business environment for the industry and its implications for the structure of farmer collaboration are discussed and related to the findings of the RAC study. By drawing upon broader strategic management thinking and relevant international practice, this study seeks to identify new feasible models for farmer collaboration.

Research objectives and procedures

Objectives

The main aim is to identify new forms of collaboration between farmers with the need to gain significantly greater scale and flexibility in an increasingly global food chain.

The research objectives are:

- 1) To assess the effectiveness of the traditional models of co-operation.
- 2) To analyse best practice in other countries and identify transferable elements.
- 3) To develop a new model of co-operation within the food chain from which UK farmers can achieve greater competitiveness

Procedures

Primary research has been limited to EU member countries (primarily Spain and France) as the legislative

framework of the Common Agricultural Policy (CAP) significantly limits opportunities for the transfer of operating models from a non-EU business environment.

Using an inductive grounded theory approach comprising a series of Delphi iterative face to face interviews, two rounds of guided interviews were completed. These comprise, 35 experts in the field of business collaboration, selected using a purposive sampling approach. Interviewees include leading academics, government officials and advisors, and managers of the most profitable and/or innovative EU-based collaborative ventures.

The objective of the first round of interviews was to identify the parameters of best practice and develop a working hypothesis of how current co-operative models might be supported or challenged effectively. The evaluation process comprised benchmarking the potential of any new model to create opportunities for improve profitability via: 1) a greater scale of operation, 2) increased flexibility of structure, 3) enhanced market

power via branding or other forms of differentiation. The second stage was completed in order to refine these frameworks using expert opinion, particularly those who are dealing with farmers on a daily basis in order to gather a closer and more practical view.

The case for change

The economic environment

The European market for agricultural products reached the value of £162.5bn in 2003, which represents 24.7 % of the global market for agricultural products (£658.8bn). Datamonitor's analysis of Global Agricultural Products for 2003 shows large retailer groups dominating in almost every world market (Table 1).

The UK is the biggest European market for agricultural products, representing 13.5 % of the total, with a value of £21.9bn in 2003. However with almost every sector of the UK's food industry suffering from over capacity and lack of investment, the larger supermarkets are cutting the number of suppliers, and in this reduction process

Table 1. Leading world companies for agricultural products. (Datamonitor,2004a & b)

Leading Companies	Products	Sales	Main Markets
Wal-Mart	Mass merchandising	£ 156,767 m	US, Latin America, Asia, Europe
Carrefour S.A	Groceries and consumer goods	£ 48,733 m	Europe, Latin America and Asia
Ahold	Food and beverage	£ 38,718 m	US, Europe, Latin America and Asia
Metro AG	Retailer	£ 37,009 m	Europe
Tesco PLC	Retailer	£ 33,660 m	Europe and Asia

Table 2. Selected leading UK supermarkets and superstores by market share by value (%), 2003, and turnover

Company	Market Share (%)	Turnover (£ bn)
Tesco	29	26.34
Asda Group Ltd	16	10.73
J Sainsbury PLC	15	17.43
Safeway PLC	10	8.64

Source: Key Note (2004)

Table 3. Largest FCBs in England by turnover

FCB	Sector	Turnover millions £
Dairy Farmers of Britain	Milk	300+
First Milk	Milk	300+
Grainfarmers	Grain	300+
Milk link	Milk	300+
Centaur Grain	Grain	100-300
G's Marketing	Horticulture	100-300
KG Fruits	Horticulture	100-300
Mole Valley Farmers	Supply	100-300
Worldwide Fruit	Horticulture	100-300
Countrywide	Supply	100-300

Source: Adapted from EFPF (2004)

dealing with the companies that are able to deliver both the required scale and quality standards (Key Note, 2004).

As a result the UK market continues to be highly concentrated (Table 2).

This process of increased concentration in the UK is coupled with a relentless increase in corporate size. The top eight UK food manufacturers turnover more than a £1bn annually, meanwhile only 32.5% of UK food manufacturers had turnovers equal or higher than £1M by 2003. This tendency has been more noticeable in companies operating in commodities sectors where the increase in operational efficiency is essential (Key Note, 2004).

In contrast, Defra (2004) estimates that the UK farmer's share of the value of a basket of food items has decreased by 28% over the period 1998 to 2003. By 2004 the same source shows the gross value added at farmer and primary producer level totals a mere £7.9bn of a total consumer expenditure of £152bn.

What's Happening At A Producer Level?

An important option for farmers in responding to the increasing concentration of market power is the formation of collaborative Farmers Controlled Businesses seeking to gain business scale and added value in production. The Plunkett Foundation (1992) defines Farmer Controlled Business as "a business in which the prime objectives are to provide goods or service intended to benefit individuals or corporate entities in their capacity as farmers".

Such collaborative ventures in England (see Table 3) already represent a significant part of the farming industry, accounting for a turnover of some £3.5 - £4.0bn in 2004, comprising 30-35 per cent of gross agricultural output of around £11.5bn. (EFFP, 2004).

However when compared to the scale of operations by FCBs of the rest of Europe, Graph 1 demonstrates clearly the significantly higher levels of co-operative turnover compared to agricultural output in different countries. Indeed the broader trading remit of such organizations results in high levels of trade in non-agricultural goods and services.

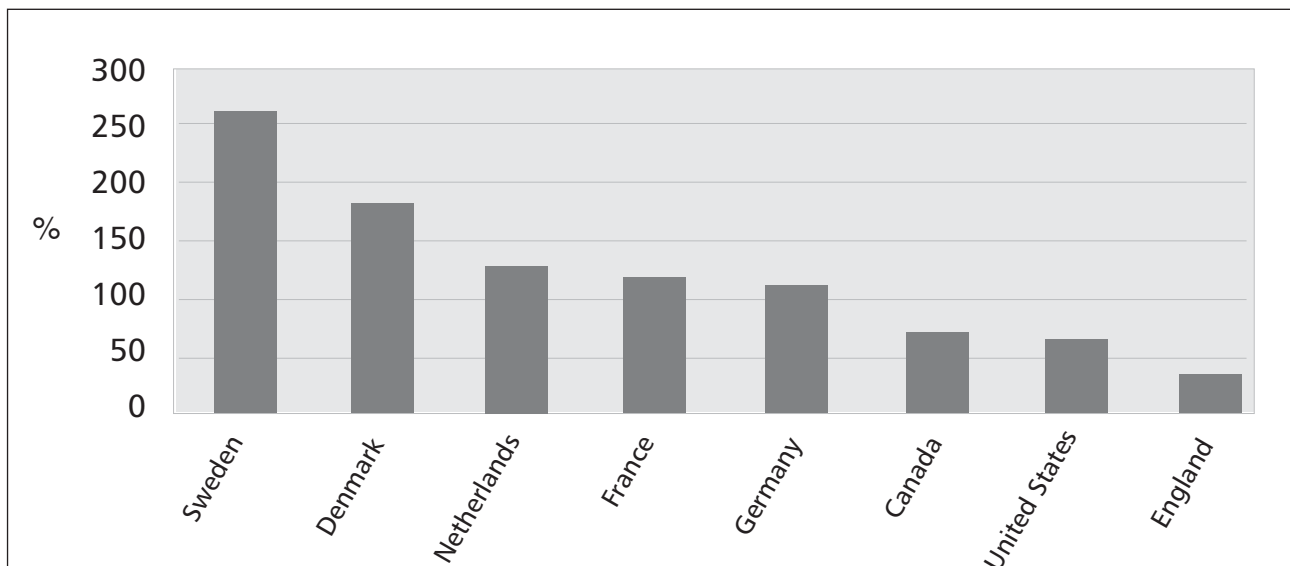
The Curry Report and EFFP

The Foot and Mouth Disease caused a huge trauma in the UK farming industry. In August 2001 the Government appointed the Policy Commission on the Future of Farming and Food, chaired by Sir Donald Curry CBE, to "advise the Government on how we can create a sustainable, competitive and diverse farming and food sector which contributes to thriving and sustainable rural economy ..." (Curry, 2002) The starting point for the commission was the assumption that the structure of the English farm and food industry was completely unsustainable. Among a wide range of recommendations, there is an important and specific emphasis in the need to increase collaboration and co-operation (Curry,2002).

One of the immediate consequences of the report was the creation of English Farming and Food Partnership (EFFP) in 2003 with the mission to "strengthen the

Graph 1. Co-operative turnover compared to agricultural output in Europe.

Source:EFFP (2004)



profitability, competitiveness and sustainability of England’s farming, food and related farm-based industries”, (EFFP, 2004). Its focus will be the promotion of collaboration between farmers and their suppliers and customers. Initial research carried out by EFFP in 2004 asked why some farmers chose not to become involved in co-operative-collaborative ventures? The most common answers were: lack of opportunity, loss of independence and not being convinced of the benefits of collaboration. When the Farmer Controlled Businesses were asked to identify the main barrier that they faced when trying to grow, the most common answer was: Farmer independence. However existing FCBs did not agree that lack of opportunity was the issue. EFFP concluded, “For the food chain to be efficient and effective a new collaborative mindset is needed involving all participants”.

The New Post-Modern Business Environment

For nearly two decades writers such as Bartlett and Ghoshal (1989) have been describing how global corporations have introduced innovative changes to organizational forms, and suggested that

collaborative resource and information sharing, interdependent problem solving and implementation decisions will become increasingly commonplace. “Managing dispersion, specialisation and interdependence are key characteristics of strong integrated networks” (Bartlett and Ghoshal, 1989). Grant (2002) highlights the increased emphasis upon building, deploying and coordinating outstanding capabilities rather than an earlier focus upon formal structures to maximise co-operation. “If we accept that most organizations need to deploy multiple capabilities and the coordination of different capabilities vary, it follows that our organizational structures must encompass different patterns of interaction” (Grant 2002).

Such writers represent a much broader research literature calling for a more flexible legal and organization structure, operating at an international scale, to meet the needs of today’s global business supply chains, and to allow smaller firms to form strategic alliances and related networks to gain access to economies of scale and scope.

Table 4: Very important factors: culture of “farm focus”, lack of “global” understanding

Barriers	Ideal characteristics
Domestic vision (production focus, independency)	Supply chain focus, consumer focus
Lack of business vision (lack of professional management)	Understanding of the business environment (business run by professionals)

Table 5: Important factors: intrinsic limitations of the traditional model

Barriers	Ideal characteristics
No clear sense of ownership	Tangible assets and benefits
Lack of commitment and dedication	100% commitment and professionalism
Inadequate structure and inflexible rules	Lean structure and flexible rules

Table 6: Relevant Factors: personal characteristics and skills of the members

Barriers	Ideal characteristics
Lack of good leadership	Leaders with the right vision and attitude
No clear division of roles	Professionalism/ clear roles
Not enough training and education	Education, training and support

Results

The framework

The first stage interviewees were asked to identify the key operational characteristics of traditional models of co-operation and to evaluate them in the light of a modern global food supply chain. Interviewees were then asked to identify the ideal characteristics of any replacement business frameworks. Responses were classified by their unanimity and the emphasis placed upon specific elements. The second stage interviewees were asked to comment upon the outcomes of the first round of interviews, and particularly to focus upon the feasibility and suitability of the emerging models.

The outcomes are summarised on the previous page (Tables 4 to 6).

Implications

The results agree with the majority of the writers in the subject, and particularly support the latest findings of Thelwall (2004) and EFPF (2004). The interview results identify key issues as the limited and inconsistent perception of UK farmers of the need for change; their lack of a broader business vision, particularly their production orientated view of their role; their stubborn independence; and the lack of clear entrepreneurial leadership in other than the most forward thinking UK co-operatives.

Direct parallels can be drawn with the work of Fulton (2000) who identifies that the key driver for increased market power is knowledge and response to consumer demands. He cites the 'New Generation Co-operatives' in the USA as examples of firms with a vision of the food chain in its entirety. A different model of co-operation could promote and develop a new kind of culture in the British farm industry. Kiriakopoulos and Van Bekkum (1999) suggest that it is the organizational arrangements of traditional co-operatives which hinders them from making their escape from production – orientated to market-orientated business.

The intrinsic limitations of the traditional model of co-operatives have been largely discussed in international literature. O'Connor (2001) says that the problem lies in the treatment of the capital as common property, weak links to voting powers and the ability to withdraw investments, and a general lack of business skills. Several of these points were raised by interviewees. The lack of business skills among members, and therefore in the controlling boards, was unanimously identified by both co-operative managers and general experts.

Cook (1995) highlights the importance of the member's commitment to guarantee the control of the co-operative. The lack of commitment and participation from the members was a common factor through all the interviews and the lack of time the principal explanation of that issue. Interestingly there was less agreement in the identification of the limitations of the traditional model and resulting barriers to collaboration amongst those directly involved in traditional co-operatives than amongst the other clusters. These other groupings clearly see a lack of supply chain and customer focus as key limitations and important barriers if an organization is aiming to be world class.

The models

The outcome of the research has been to develop three discreet but combinable models of collaboration. Each model requires different levels of commitment from its members and would suit different business situations. It is assumed that the prime consideration for members of any organization of primary producers is a desire to receive enhanced financial benefit from their participation. Each model reflects the detailed comments of interviewees.

Model 1: NETASSOC

This model allows a group of farmers (also industry-related non-farmer businesses) to collaborate in a formal business relationship. The volume, price and quality of the products are agreed in advance, (there must be at least a clear description of the products to be traded). In some cases it will be possible to have standardised contracts between the members and guidelines about the operational requirements to participate in the NetAssoc. For example, a beef farmer and a finisher might be members of a NetAssoc. The farmer might agree to sell his calves to a finisher. The number of calves, the breed, the weights, delivery dates, etc, would have been agreed in advance.

Members would be registered with the NetAssoc but would be flexible in agreeing to contracts in any one trading period. This would allow a better co-ordination of the chain; increasing the efficiency and the quality of the final product. Here supply and demand are matched within a flexible and yet agreed framework where the parties would have redress to law. Interaction among members would need little additional supervision or control. The level of organization can vary, being loose or tight at varying times.

There are no entry barriers beyond acceptance by existing members of the basic rules of the NetAssoc and no exit barriers other than the restrictions of an individual contract. Co-ordination could be shared by the members to reduce overheads. Collectively members of the NetAssoc might decide to bid for contracts – if successful they may decide to appoint professional co-ordinators. However a simple database of contacts would also suffice. The NetAssoc thus promotes the matching of supply and demand. Production quality is determined by individual contracts. Increased communication, improved flows of information and increased mutual trust and dependency should result. It is extremely flexible for the participants and no initial investment is required. Basic governance would develop only on the basis of success and mutual agreement. As scale increased the members of the NetAssoc might conceivably vote to become a group member of a NetCo-op.

Model 2: NETCO-OP

This model is an adaptation of the traditional model of co-operatives. Members have to acquire “rights” to participate in the co-operative (buying or delivering products). The number of rights purchased for each member will be in relation to the amount of products allowed to be traded, and will relate to the voting power of the member, increasing the commitment and the sense of ownership towards the Netco-op. Members will receive market price for their products, and a further “bonus” which represents the ability of the Netco-op to add value to the inputs, allowing a clear differentiation between the product delivered by the member and the performance of the Netco-op as a business. This kind of procedure drives the producers to increase the quality of their production and it is a good way to evaluate the performance of the Netco-op’s management team.

Where the Netco-op operates in more than one sector (business or products), the member’s “rights” will determine the number of “participations” acquired by a particular member. These “participations” represent the share of the whole Netco-op that belongs to each member and therefore relate to the voting power. i.e. a member will receive market price for the products traded (x amount of potatoes), plus a later “bonus” based upon the added value of the product sector (performance of the potatoes business within the Netco-op), plus a “participation dividend” related to the profitability of the Netco-op as a whole. Increasing the global vision of the business and spreading the risk of the membership.

The valuation of the members “rights” will vary with the overall performance of the Netco-op and these rights will be tradable and may therefore offer the opportunity

for a capital gain. The model offers many options and could be the basis for a federal model, where individual producers own the ‘rights’ and a first tier co-operative or Net Assoc owns the ‘participations’ in a larger NetCo-op (related with the number of rights of its members), thus giving them the voting power and participation in the overall performance of the federated co-operative. The performance of the Netco-op and a real sense of ownership are at the centre of this model, compelling forces to drive a focus upon the needs for consumer and a broader vision of the requirements of the supply chain. It is also a flexible structure more suited to a complex and changing business environment.

Model 3: NETBUS

The Netbus is a traditional registered company, with the key difference that its shareholders are other business/companies who are participants of a specific supply chain. It is a network of businesses that form a company, bringing integration, coordination and flexibility to the supply chain. The members form a company in order to increase collaboration and commitment with the common objective of long-term sustainability and competitiveness. Because every stage (every individual business member) of the chain owns shares in the company, there will be clear benefits from the sharing of information and the seeking of maximum efficiency at every stage.

The structure could be a horizontal or a vertical organization, so the possible shareholders are: primary producers, processors, input companies, traders, financial institutions, service companies, universities, Netco-ops, FCB, and so on. Everybody buys shares, participates in the profits, and the company is run as a normal profitable business. Therefore, each member has to deliver (products or services) to meet the company expectations, otherwise it should be provided by someone else. These kinds of requirements will pressure each member to be the best in their particular area, and the return will come as dividends and as an increase in the share price.

Some restrictions are necessary to ensure the primary producers maintain majority ownership, and the NetBus may decide to limit membership. This could be done by the introduction of different type of share with different rights over profits and over voting power. There is a huge potential synergy coming from the participation and commitment of business from significant elements of a supply chain. It will increase the coordination, efficiency and long-term competitiveness of the participant members.

Bargaining power increases exponentially allied to a significantly improved flow of commercial information

between its participants. Because of the integrative nature of such an organization, there will be a need to demonstrate compliance with anti-trust or Office of Fair Trading regulations, however it is an ideal model to compete against other supply chains and to develop new products or enter competitive markets.

Conclusions

The proposed models seek to overcome the perceived limitations of traditional models of UK Farmer Controlled Businesses in the new economic environment. The models offer a different framework that will increase the consumer/supply chain focus and the flexibility required by UK FCBs to increase their competitiveness.

1. The payments of dividends or bonuses act as more visible benefits of being part of the organization. There needs to be established the right to trade ownership and a financial framework attractive to external capital.
2. The proposed models offer mechanisms that increase the motivation for participation and develop a stronger sense of ownership that will be reflected in higher commitment.
3. The models 2 and 3 provide a better environment for the development of the management, increasing the possibility of better performance, control and career options.
4. The models offer new opportunities to proactive new members with a continual interest in increasing their level of participations. Such participating members will support the recruitment of well-educated and/or experienced leaders.

Addressing the problems of culture and attitude is a long-term process. The key factor is to gain recognition of the need to fundamentally address organizational structure.

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Financial Reporting by Co-operatives: a draft accounting standard. (1) (2) (3)

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- (2) Revised 10 May 2005.
- (3) Note for IASB: As detailed in the submission of 27 October 2005 on IFRS3, following comments expressed at the presentation of this paper and subsequently, the expression 'fair value' in paras 5.1 and 5.1.1 of the draft standard would be replaced by the expression 'net realisable value'.

Abstract

International financial reporting standards are based on the investor-owned company model. They are inappropriate for co-operatives, especially in regard to members' equity and related party disclosures. Evidence of the former was seen in the submissions to the International Accounting Standards Board's proposal IAS-32 Financial Instruments: Disclosure and Presentation and IFRIC Draft Interpretation D8 Members Shares in Co-operative Entities.

The solution proposed here is a draft financial reporting standard for co-operatives. It addresses known problems arising from existing standards. The presence of a standard dealing specifically with co-operatives will allow a more timely response to new issues as they arise. An increase in the profile of co-operatives as valid business entities in the twenty-first century is a secondary benefit.

Key words

Accounting Standards, Co-operative Assets and Liabilities, Co-operative Reporting Standards, Disclosure and Presentation of Financial Data

Introduction

In the legal and commercial environment co-operatives frequently have a low profile, despite their significance as contributors to the economy. An unintended consequence is that changes in law and accounting standards may be made which adversely affect co-operatives. Law-makers and standard setters at times appear to act in ignorance of co-operatives; at other

times being driven by a belief that the investor-owned company (IOC) model is applicable to all types of organizations.

Two examples will illustrate this problem. In 1993 New Zealand updated its Companies Act. Among other changes, the new act prohibited par values or nominal values of shares. This posed no problems for IOCs. In fact it simplified the accounting for their formation. It was no longer necessary to separate the amount contributed into par value and share premium. It simplified the redemption of capital by allowing share buy-backs.

At the same time the Co-operative Companies Act 1955 was repealed. This was not because of the unimportance of co-operatives in New Zealand. They contribute an estimated 22% of New Zealand's gross domestic product¹. The change was made in ignorance of the difference between co-operatives and investor-owned companies.

The Companies Act 1993 inadvertently made life impossible for co-operatives: The abolition of par values meant that it would no longer be possible to form a co-operative which recognised the principle of 'a dollar in; a dollar out.' Redeeming the shares of inactive members would become costly and cumbersome. The share redemption clauses in the new act effectively prohibited buy-backs that were available only to one sub-section of the shareholders unless disclosure documents had been sent to all shareholders.

The pressure of other parliamentary business meant that the Crown Law Office was unable to prepare any amending or supplementary legislation to accommodate the needs of the co-operative sector. Consequently the New Zealand Co-operatives Association with the assistance of its legal advisors drafted the Co-operative Companies Bill, which was duly passed by parliament in 1996.

The cost to the co-operative sector was not only the direct costs of legal counsel; it also included the time given by senior executives working with the Association's counsel to prepare a workable bill. The primary benefit is now the presence of relevant legislation that is tailored to the needs of the co-operative sector. A secondary benefit is that the

presence of the act raises the profile of co-operatives in commercial and other circles.

The second example of co-operatives being adversely affected by external changes has arisen with the development of international financial reporting standards.

The origins of the problem

In 2004 the International Accounting Standards Board issued a draft standard IAS 32 – Financial Instruments: Disclosure & Presentation. It sought to prevent window dressing of balance sheets which had been occurring by issuing (short term) financial instruments that were legally shares but were in substance debt. It was proposed that any shares which entitled the holder to demand repayment would have to be reported as a liability. In order to be treated as equity shares would have to confer a right to participate in the net assets on a winding up.

These proposals and the draft interpretation D8 Members Shares in Co-operative Entities met with widespread opposition from co-operatives in member countries around the world. Almost 100 comment letters were received². The common thread was that, in co-operatives, members' contributions were equity. The submission from the Institute of Chartered Accountants in Australia (ICAA) even used 'substance over form' to argue that D8 was inconsistent with IAS 32 and that 'the substance of the transaction is equity at the time of the members' contribution'.

Dissatisfaction with the inappropriateness of applying IOC standards to co-operatives was also expressed in the USA, which is not a member of the IASB but whose equivalent is the Financial Accounting Standards Board (FASB). The FASB had issued FAS 150 in May 2003. Like IAS 32, it required mandatorily-redeemable shares to be treated as liabilities. Widespread opposition from American co-operatives, and others, resulted in an announcement by the FASB on 7 November 2003 that FAS 150 was being deferred indefinitely for 'non-public companies' including co-operatives.

Other proposed international standards have also been criticised as inappropriate for, or detrimental to, co-operatives. They have led to the recommendation from the International Co-operative Alliance (ICA) that there should be specific accounting standards for co-operatives³. The ICA suggested that such standards should be formulated 'after thorough study and analysis of national accounting standards.' Desirable as this process is, it could take some years to complete.

It is clear that action is needed now to rectify the problem of inappropriate standards being imposed

because they fail to recognise the fundamental differences between IOCs and co-operatives. For New Zealand co-operatives the situation has become pressing following the announcement by the Accounting Standards Review Board that international financial reporting standards will be mandatory after 1 January 2007.

A solution

It has been acknowledged by the Chairman of the IASB that a structured approach is needed to resolving the problem illustrated by IAS 32⁴. One possible approach could involve a review by the co-operative sector of all existing standards leading to a schedule of authorised departures, i.e. a form of differential reporting. Such a practice is an accepted means of accommodating the needs of small and medium sized companies. Underlying it, though, is the presumption that the standards are appropriate; the exemption is merely being granted because compliance would impose a disproportionate cost on the company.

Such is not the case here. The co-operative sector has certain fundamental differences which are not catered for by the standards prepared for the majority of entities. Therefore an industry-specific standard may be more appropriate.

A parallel may be drawn with the agriculture and banking industries; standard setters have recognised the need for specific standards in these industries⁵. A structural solution involving the adoption of a basic financial reporting standard for co-operatives has a number of attractions. Such a standard would:

- (a) deal with the issues that have arisen from IAS 32. It would address the immediate issues at least as satisfactorily as amending IAS 32;
- (b) make clear the fundamental differences between IOCs and co-operatives. This would assist standard setters in the future and improve the educative process of accountants. It would also raise the public profile of co-operatives;
- (c) be able to be approved by the ASRB within a short timeframe, especially where there is evidence from the NZ Co-operatives Association that it meets the needs of local co-operatives;
- (d) be subject to the normal standard setting revision and updating process. It could therefore incorporate additional reporting requirements arising from periodic studies, such as the ICA suggested, or from further developments in the co-operative sector;

(e) be an appropriate base for the development of an international financial reporting standard.

In the appendix a draft of such a standard is presented. It follows the convention of presenting in bold those paragraphs which set out the formal sections.

Conclusions

Co-operatives have always practiced accountability to members. Arguably, they have been at the forefront in terms of the quality of financial reporting and have shown a willingness to present information to members. Over 160 years ago, the directors of an investor-owned company in England made the following announcement to their shareholders:

“On more occasion than one, the question has been mooted at the general meetings as to the publication of the accounts of the company, and the opinion has been expressed by the board, that the period had not arrived when it would be expedient to do so, and at the same time the proprietors have been informed that it was not in their interest that such a course should be pursued...”

Proprietors at a distance, forming their opinion of the future position of the company from the published accounts of past transactions could scarcely avoid arriving at erroneous conclusions ... but the directors entertain the hope that the proprietors will rest contented with the assurance that the establishment is carried on with every regard to economy consistent with efficiency.”⁶

At about the same time, by contrast, the rules of the Rochdale Pioneers provided for credible and timely financial information to be available to members by means of audited quarterly financial reports⁷.

It is ironic that today’s pressure for improved financial reporting and better accounting standards, which has arisen from ethical breakdowns in investor-owned companies, should result in financial reporting standards that are inappropriate for co-operatives.

Co-operatives are fundamentally different from investor-owned companies. The pre-occupation by standard setters with applying the corporate model to all entities results in standards which, to date, fail to recognise the unique aspects of co-operatives.

The publication of the Guidance Document *Key Social and Co-operative Performance Indicators* by the National Centre for Business and Sustainability⁸ in July 2004 and *Co-operative Capital*⁹ in October 2004 show a dynamic and forward-looking co-operative sector that has relevance in the economic environment of the twenty-first century.

The time has come for international financial reporting standards to recognise the co-operative difference. The relevance of financial reports of co-operatives should not be diminished by the distorting effects of standards designed for investor-owned companies.

Appendix.

Draft Financial Reporting Standard. Financial Reporting by Co-operatives

1. Application

- 1.1. This standard applies to businesses which operate on the principles of user-ownership, user-control, and proportional distribution.
- 1.2. Such businesses are commonly called co-operatives or mutual societies. It is not necessary that they are formed under specific legislation incorporating these terms; for example ‘industrial & provident societies’ or ‘friendly societies’ usually operate on such principles.

2. Statement of Purpose

- 2.1. This standard is designed to clarify what are appropriate reporting practices for co-operative and mutual businesses especially where they differ from financial reporting standards of investor-owned companies.
- 2.2. To the extent that they are not inconsistent with this standard or with legislation or constitutional rules, all other financial reporting standards apply to co-operatives.
- 2.3. Financial reports of co-operatives should present faithfully information that is factual and reliably measured in contemporary terms. Care should be taken to avoid over or understating amounts.

3. Definitions

- 3.1. Dry shareholders: shareholders who have ceased to transact with the co-operative and whose shares are thereby liable to be redeemed.
- 3.2. Fair value: the net realisable value, in the ordinary course of business.
- 3.3. Investor shares: shares issued by the co-operative on which dividends are paid as a return on investment and not as a patronage rebate.
- 3.4. Patronage rebate: a distribution made to a transacting shareholder in relation to that

person's transactions with the co-operative over a period. It may be made partly in cash and partly in redeemable shares or other financial instruments as part of a capital redemption plan.

- 3.5. Proportional distribution: the process whereby surpluses are distributed as patronage rebates.
- 3.6. Transactor shares: shares issued by a co-operative which entitle the holder to a patronage rebate.

4. Members' Equity

- 4.1. Shares held by transacting shareholders should be reported as members' equity; shares held by dry shareholders should be reported as a liability. Investment shares should be reported as members' equity.
 - 4.1.1. Shares held by transacting shareholders are treated as equity notwithstanding the right of redemption when the shareholder ceases to be a member of the co-operative. IAS 32 does not apply to co-operatives.
 - 4.1.2. Co-operatives may sometimes issue patronage rebates in the form of redeemable preference shares. These shares should be reported as members' equity or as a liability consistent with the members' status under para 4.1.
- 4.2. Unallocated profits should be separately reported as a part of members' equity.
 - 4.2.1. Subject to applicable local laws the governing board of a co-operative may decide to retain some level of profits (possibly arising from trading with non-members or from revaluations).
- 4.3. Members' deposits or current accounts may be shown with members' equity appropriately described.
 - 4.3.1. Where members' deposits are an incidental part of the co-operative's activities it may be helpful to report such amounts following members' equity rather than as part of current (or term) liabilities. The total of members' equity should be reported; the combined total should be reported as 'Members' Equity and Deposits'.

5. Asset Revaluations

- 5.1. Assets should be revalued regularly, preferably annually, to fair value.
 - 5.1.1. Knowledge of the fair value of assets is part of the information required to establish whether the co-operative is solvent.

5.1.2. It is also relevant for calculating the fair value of shares in the co-operative.

- 5.1.3. The constitutions of co-operatives may specify that revaluations be allocated to members when recognised, or retained as unallocated profits, or be distributed only to a designated type of charity on a winding up. The latter provision is designed to safeguard the co-operative against demutualisation by individuals seeking windfall gains. The principle of disposal of net assets without profit to members was a constitutional requirement of the Rochdale Pioneers from 1854 and in some countries, such as France, it is currently a legal requirement.

6. Disclosures

- 6.1. Shares
 - 6.1.1. Share qualifications required to be held by transacting shareholders should be clearly disclosed, together with conditions under which the holder becomes classified as a dry shareholder.
 - 6.1.1.1. Because of the diversity of practice, co-operatives should clearly disclose the number of shares required for membership, whether shares may be paid for by instalments, when excess shares may be surrendered, and when a member will be paid out after ceasing to be an active member of the co-operative.
 - 6.1.2. The rights of different classes of shares should be clearly disclosed.
 - 6.1.2.1. Where there are both transactor shares and investor shares the co-operative should disclose the voting rights applicable to each class of share, its distribution policies, and any limitations on transfers.

6.2. Patronage Rebates

- 6.2.1. A Statement of Member Benefits should be presented annually as an integral part of the annual report.
- 6.2.2. The basis for determining rebates should be clearly disclosed, together with the policy on the manner in which rebates are distributed to members.
 - 6.2.2.1. Rebates based on patronage may vary according to a number of factors such as the type and quality of goods bought/sold or the costs involved in handling the transactions.
 - 6.2.2.2. Rebates should be distributed to members in a timely manner. Some part of a rebate may be

deferred to assist the co-operative's cash flows. This could take the form of interest bearing unsecured interest bearing notes or redeemable preference shares on which a dividend is paid.

- 6.2.2.3 Patronage rebates should be shown on the face of the Statement of Financial Performance following the Operating Surplus before Taxation and Members' Rebates. This emphasises to members that rebates are a distribution of profits and are not contractual expenses such as interest or other funding costs.

6.3 Related party disclosures

- 6.3.2 Disclosure should be made of all related party transactions involving directors, other than in their capacity as transacting members of the co-operative.

- 6.3.2.1 Directors who trade with the co-operative on the same terms and conditions as other members have no potential conflict of interest for which the related party disclosure standard was designed. Were disclosure of the level of their rebates required, they would be disclosing sensitive information about their business to competitors.

6.4 Remuneration range

- 6.4.2 Disclosure should be made of range of remuneration paid during the period.

- 6.4.2.1 Co-operatives have traditionally sought to provide an equitable return to transactors and employees. The extent to which the latter have been fairly rewarded can be seen in the range of annual payments made.

- 6.4.2.2 Some co-operatives believe that the range should not be greater than three times for employees in the same geographic and economic environment. The format in which this information is presented by very large co-operatives should recognise the differing locations in which the co-operative operates.

Notes

¹NZ Co-operatives Association, Submission on IAS 32 and IFRIC Draft D8 Interpretation.

http://www.iascfoundation.org/current/comment_letters_ifric accessed 31 Dec 2004.

²IFRIC Draft Interpretation Comment Letters

http://www.iascfoundation.org/current/comment_letters_ifric accessed 31 Dec 2004.

³International Co-operative Alliance, Comments on IASB's Exposure Draft of proposed Amendments to IFRS-3 Business Combinations. 30 July 2004.

http://www.iascfoundation.org/current/comment_letters_ifric accessed 31 Dec 2004.

⁴NZ Co-operatives Association, Submission on IAS 32 and IFRIC Draft D8 Interpretation.

http://www.iascfoundation.org/current/comment_letters_ifric accessed 31 Dec 2004.

⁵IAS 40 Agriculture; IAS 30 Disclosure in the Financial Statements of Banks and Similar Financial Institutions.

⁶From an 1847 Directors' Report, quoted by Naylor, G. Guide to Shareholders' Rights, George Allen and Unwin, 1969, p120.

⁷Birchall, J. Co-op: the people's business. Manchester University Press, 1994, p54.

⁸Available from www.cooperatives-uk.coop

⁹Brown, J. (ed) Co-operative Capital. Co-operative Action, Manchester, 2004

¹⁰File Name : P:\Sabbatical 2004\IASBFinancial Reporting by Co.doc Date: 11 December 2006

Privatization's Narrative of State-Owned Services: panacea or threat to businesses and to labour force democracy?

Irene Fafaliou and John Donaldson

Abstract

This paper seeks to clarify some ambiguities in the privatization debate and offers a constructive framework suggesting ways forward. The business and social impact of privatization is examined via representative arguments and case studies. The International Labour Organization (ILO) estimates that by 1998, Europe accounted for over half of all privatized assets in the world. Governments¹ in the European Union, regardless of their political colour, claim the necessity of privatization in such fields as railways, postal services, hospitals, telecommunications, water and social security for sustainable competitiveness. Trade unions, various social groups and opinion polls indicate demands that governments guarantee public services of all kinds¹ emphasizing unemployment and income distribution effects. The debate has concerned: 1) Does privatization merely respond to free market stances or also to real market needs? 2) Is privatization a "quick fix" for the wider society? 3) Do private social services firms perform better than the state-owned ones?² Ways forward could include clarification of the objectives and assumptions of particular privatizations, boundaries concerning what is to count as privatization, evaluation of performance, compensation of losers, and when restoration might be appropriate.

Key words

Privatization, Business, De-mutualisation, Labour force, Mutualisation, Re-mutualisation

Introduction. Privatization in theory and practice

The International Labour Organization (ILO) estimates that by 1998, Europe accounted for over half of all privatized assets in the world. Governments in the European Union¹, regardless of their political colour, claim the necessity of privatization in such fields as railways, postal services, hospitals, telecommunications, water and social security for sustainable competitiveness. Trade unions, various social groups and opinion polls indicate demands that governments guarantee public services of all kinds² emphasizing unemployment and income distribution effects. The

debate has concerned: a) Does privatization merely respond to free market stances or also to real market needs? b) Is privatization a "quick fix" for the wider society? c) Do private social services firms perform better than the state-owned ones?³

This paper seeks to clarify some ambiguities in the privatization debate and offers a constructive framework suggesting ways forward. The business and social impact of privatization is examined via representative arguments and case studies.

The drive towards privatization

The ownership, regulation and control of the businesses that produce goods and services have historically taken many forms. Arguments from the need for state support of infrastructure and for major investment for modernization led to the nationalization of coal and steel production in the 1940s in Britain and elsewhere.⁴ Banking, insurance and finance, though typically produced by private corporations, have traditionally been subject to regulation by governments. Even when wholly privately owned, industries have traditionally been supported in part by public contracts, for example, for defence procurement. The drive towards privatization is generally regarded as having its origin in the critiques of nationalization and its shortcomings by Milton Friedman, Friedrich von Hayek and others⁵. By the early 1990s, the transfer of state-owned or municipally-owned enterprises became commonplace in many countries.

The debate on privatization has tended to concentrate on the benefits and disbenefits that are held to have ensued, and it is suggested here that that privatization has the appearance of being a "practice without a theory". Evidence for this is to be found in the nature of the arguments used by proponents and opponents. The principles that seem to be relied on in favour of privatization seem to be those of the free market. The difficulties adduced by critics relate to the pragmatic observation of unwanted consequences. The response to criticisms tends to be that the privatization has, in some cases, not been carried out well enough or that there were unexpected difficulties, with what seems to be assumed to be an obviously required policy.

Fafaliou and Donaldson (2006) proposed that there is a need to develop evaluation criteria, specifically that ways forward could include clarification of the objectives and assumptions of particular privatizations, demarcation of the boundaries concerning what is to count as privatization, evaluation of performance, compensation of losers, and circumstances in which restoration might be appropriate. These arguments are not repeated here. Rather, some suggestions are offered on how the criteria could be applied. Some characteristic arguments are examined, relating firstly, to the effects on labour markets, and particularly in labour force democracy, and secondly, to the impact on small businesses.

Labour force democracy

Labour force democracy is here regarded as having two main relevant elements, namely, the presence and viability of independent representative organizations for workers and employees, as envisaged by the International Labour Organization's Labour Standards, and the provision of facilities for enabling participation in the labour market on acceptable terms. These latter terms include the so-call "family-friendly" policies that encourage entry into the labour market, and encourage participation by individuals in creating an adequate quality of working life. It is accepted here that notions such as family friendliness and quality of working life involve judgements of value. Such judgements are continually being made or implied in, for example, the directives of the European Union and in the legislation of members countries. Such judgements, of course, inform and generate the published standards of the International Labour Organization.

There is an inevitable gap between the aspirations encapsulated in the standards already referred to, and the practical dynamic of labour markets. Industries grow and decline, competition arises, sometimes from unexpected sources, as, for example with the rise of new technologies, or of environmental shocks. What needs to be explored are the extent to which the privatization movement can or does help, in ameliorating these influences, and the extent to which it has become one of them. From the point of view of employees made redundant as a result of privatization, it appears to be an external, policy-driven shock. From the point of view of the economy as a whole, it is often seen, in principle at least, as a move towards market efficiency.

It is clear that the privatization movement has been a factor in the reduction of union membership⁶ at the factory level, if only because many of the large, union-

organised factories (and mines) have closed as manufacturing production moves to emerging economies. Many studies show that privatization reduces the overall level of employment in many industries⁷. Whether these cases illustrate the effects of prior "over-manning" must depend on individual cases, and on the existence of criteria for judging efficiency levels before and after privatization.

According to Bosworth, Dawkins and Strombach (1996)

Privatization, therefore, has oriented the companies towards profit maximization. There is some evidence that there have been resulting improvements in labour productivity. After the initial shock of privatization, however, what happens to the demand for labour over time depends crucially on the form of regulation. (Page 111)

On the question of influence at work, it is reduced to zero for those employees who have been made redundant, but does it increase labour force influence in the internal labour market for those who remain? There are few studies that show a positive result in this respect.

There is some evidence on the effects of privatization on the movement of labour between industries. Bosworth, Dawkins and Strombach (1996) see it as part of the "flexibilization" of labour:

"It seems that "flexibilization" of the labour market is a policy response which allows the adopting economy to adjust to major structural changes, enabling a higher proportion of individuals to find some form of employment. The evidence from the UK is that this occurs through their transfer into relatively low-skilled/low technology jobs, historically at least, located in the service sector. There is probably some element of truth in arguing that flexibilization of the labour market in the UK has led it more³ in the direction of being a low-skilled/low-technology economy, while other countries have attempted to move in exactly the opposite direction – towards the high-skilled/high-technology end of the spectrum." (Page 446).

This result implies that in the aggregate, influence of employees at work has shifted, in the UK at least in the direction of declining influence in the above cases in the UK.

The role of small businesses

Many small businesses are being created as people who had been employees of public or state-owned

enterprises and services become contractors, or employees of contractors who are heavily dependent on former employers for work. Small businesses less likely than large ones to have, or be required to have collective bargaining arrangements in place. Small businesses, however, are exempt from only some of the regulatory constraints that apply to large corporations. In Britain, spokespersons for small businesses point to an increasing regulatory burden, especially in the employment of labour. One of the constraints that many small businesses, especially micro-businesses are not subject to is the need to have in place recognition of, and procedures for bargaining with, trade unions.

A possible theoretical framework

If it is accepted that the above, somewhat sketchy, description of the impact of privatization on labour markets and on small business creation and regulation is broadly correct, some questions arise on the relationship between the labour market and small business operations on the one hand, and the efficiency gains of privatization on the other hand.

An implication of the above account is that privatization has produced losses in the control of or influence on working conditions by employees, directly, or through their representative organizations. Part of the case for privatization was indeed that in the 1970s, "corporatism", i.e. the duality of control of work of employers and unions through collective bargaining had produced rigidities in the developed economies of Europe that were preventing the market from responding efficiently to the pressure of competition from the emerging economies.

Turning specifically to the criteria for evaluating the privatization experience, an examination of the literature suggests that there are few direct attempts to identify such criteria. Rather, the literature appears to cover a wide range of effects. For example, there have been studies of employee participation in buy-outs and share-ownership, suggesting that such participation is very limited⁸ (Some studies have concluded that competition is a more important predictor of financial performance than is the ownership of the business. (Shirley & Walsh (2004). Other studies conclude that governments often remain the largest shareholders (Bortolotti & Faccio (2004) and that efficiency, employment and an adequate regulatory framework appear to be important determinants of the privatization experience. (United Nations Economic and Social Commission for Asia and the Pacific (2002)

Development Paper 22, Bangkok, and Kikeri & Nellis (2004) Nellis (2003) Working Paper 25, Center for Global Development, Washington DC, February. concludes, in relation to privatization in Africa, that

"The long-run and difficult solution is the creation and enforcement of institutions that underpin and guide proper market operations".

Further, a study of popular discontent with privatization in Latin America concluded that the pace and size of privatization and the economic impact in areas of high income inequality, is associated with public unpopularity of privatization. (Florio, Chechi & Carrera (2004). In short, the studies appear to show 1) that financial and commercial performance, in terms of profit favours privatization, that competition, rather than ownership is a key determinant of performance. Cautionary notes draw attention to the pace of change, presence of major inequalities in income, and need for adequate regulatory and guiding institutions.

Ways forward could include clarification of the objectives and assumptions of particular privatizations. Fafaliou and Donaldson (2006) concluded that privatization has the appearance of being a practice without a theory, and that its apparent "negative benefits" seem to be generally regarded either as problems of perception, or to flawed operation of a business idea that is necessary for contemporary economies of all kinds. Thus, the critiques of and defences of privatization appear to apply to the practice, rather than the principle, whereas the principle involved remains obscure. This suggests that privatization has assumed the status of an ideology, rather than a practice that has been logically thought through and tested. Ways forward might thus appear to be possible if at least the main principles of privatization can identify the range of cases to which it can or should be properly applied, rather than seeing privatization as either an economic panacea or as anathema to civilised society.

Evaluation criteria

A possible approach to the matter is to explore whether there exist or could exist any clear principles through which privatization can be evaluated. Several evaluative categories may be considered.

1. Demarcation of the boundaries

Demarcation of the boundaries concerning what is to count as privatization, (as opposed, say, to elaborate contracting procedures through "agencies.") There appears to be a spectrum, extending from the "ideal

type” of pure competition to the “ideal type” of monopoly. It appears that there are no pure examples at either end of the spectrum, as all cases seem to involve a mix of oligopoly, subsidy, regulation and privileges, all of which are well described in the literature. Another spectrum includes a mix of private and public funding and initiatives, as in the “private funding initiatives known as PFI in Britain.

2. Evaluation of performance.

This appears to need longitudinal studies, involving the history of ownership and control so that comparisons can be made of performance in a variety of macroeconomic settings: e.g. the history of ownership, control and subsidisation of rail transport in Britain has been one of private ownership, nationalization, privatization, changing demand conditions, subsidies and major safety problems.

3. Compensation of losers.

The studies to which we have referred tend to recognise that there are winners and losers in the process. The assumption seems to be that the winners are lucky, and deserve their luck, but that the losers are unlucky, and are expected to move on in search of new opportunities. There seems to be little or no discussion of how such policy-driven redistributions could be justified or amended.

4. Restoration

Circumstances in which restoration might be appropriate. The idea that some privatizations could have been unsuccessful in practice, does not seem to have generated the idea that the process could be reversed.

Some practical implications

If, as is suggested in this paper, privatization has been essentially a pragmatic movement, with no compelling principles that can be applied, and driven by (real or fancied) political imperatives, some ways forward can be suggested. Remaining with a pragmatic theme, it is suggested that the performance could be evaluated according to several criteria. The financial costs and benefits will inevitably take pride of place. Legitimate expectations of service may fail to be met, as in the case of some water privatizations, privatization of pensions and rail transport. Who are to count as legitimate stakeholders, and what their legitimate claims are would need to be a matter for debate, (rather than assumed worthiness or otherwise, as appears to be the current practice). These claims could then inform the eventual evaluative criteria.

Finally, on the basis that varying regulatory regimes, varying subsidies, retention in some cases of majority shares by governments all imply that not all forms of privatization are successful, a contingency plan in each case would be prudent. Such a plan may, in principle, include reversal of privatization, or substitution of other forms of ownership and control, such as by municipalitie, local consortia or Co-operatives. In principle, they could even be more productive than some current forms of privatization, but in the present climate of opinion, this last possible option seems unlikely.

Notes

1. The International Labour Organization (ILO)-Action Programme on Privatization, Restructuring and Economic Democracy: Synthesis report by Professor J. Marcovitch, Geneva, May 1999. (available on line).
2. See for example, William Finnegan, "Leasing the Rain", *New Yorker*, April 8, 2002, p. 44; Or Massimo Florio, Daniele Checchi, Jorge Eduardo Carrera Privatization Discontent and its Determinants: Evidence from Latin America. Working Paper 104.04. Fondazione Eni Enrico Mattei (FEEM), Milan, June 2004.
3. See for example, Juliet D'Souza, William L. Megginson, Robert C. Nash, Effect of Institutional and Firm-Specific Characteristics on Post-Privatization Performance: Evidence from Developed Countries. University of Oklahoma, Norman, November 2004; Or Sunita Kikeri and John Nellis. An Assessment of Privatization The World Bank Research Observer, vol. 19 (1): pp. 87-118. Oxford University Press, Oxford, April 2004.
4. Fafaliou. I. and John Donaldson (2006) "The contribution of privatization to welfare." Paper presented at the 61st Atlantic Economic Conference, Berlin, 15-19 March 2006.
5. See, for example, Friedman, M. (2002) *Capitalism and Freedom: Fortieth Anniversary Edition*, University of Chicago Press and Friedman, T. (1999) *The Lexus and the Olive Tree: Understanding Globalization*, Farrar Strauss Giroux, New York.
6. This decline and its contributory factors are discussed in Burchill (1997), pages 50ff.
7. Burchill, F (1997) loc.cit.
8. Wright M. (2002) Conference: Privatization, Employment and Employees. October, Istanbul.

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A Management Model for the Evaluation of Co-operative Success with Special Reference to Member Objective Setting and Satisfaction.

David B. López Lluch, Francisco José Del Campo Gomis and Fernando Vidal Jiménez

Abstract

In the first part of the article we looked at some aspects related to co-operative management that arise from the existing differences and similarities between co-operative and non co-operative companies in the light of the literature up till 1995. Then, we concentrated on the reasons that lead to failure and we looked at several lists proposed by some authors. The factors that contribute to success (with special references to members' satisfaction) were discussed in the third part.

In this second paper we explore the literature since 1995 and consider how far it has yet to influence management practice in co-operatives. We intend to reflect on the impact of the recent literature on the traditional management paradigm and its traditionally presented formulation of a division of responsibility between board and management. Is there a case on the basis of the more recent literature for suggesting a more integrated understanding of the commercial and social dimensions of the co-operative enterprise? Other aspects related to the special features of co-operatives in the theoretical models of mainstream business up to this point are introduced. We also intend to evaluate the extent to which the analysis concerning the nature of co-operative management leading up to the ICA Identity Statement is seriously challenged and in need of amendment resulting from the more recent literature both from mainstream business school sources and those writing principally for a co-operative audience. Finally, the evaluation method based on the literature review previously analysed is considered in the light of the proposals for a new paradigm. This method is especially focused on the measurement of members' satisfaction as a key indicator of co-operative success.

Key words

Co-operative Management, Co-operative Identity, Co-operative Value Based Management, Membership Satisfaction

Management and membership

In this part of the paper we explore the linkage between co-operative management and co-operative

membership through the revision of some previous works. We intend to look at the fact that if co-operatives are to survive and effectively fulfil their social and economic purposes in the commercial environment of the modern world much will depend on the quality of their management. But, on the other side, can co-operative values and principles themselves provide the basis for the differentiation of co-operative management culture from management culture?

Davis (1995) thought about the links between co-operative management and co-operative purpose. In this paper, the author stressed the importance of values, principles and objectives in this linkage. The author argued that the literature has been very strong on the identification of common co-operative values and processes but it is less sure footed as to any general objectives that binds the whole movement in practise. On the question of management Davis (1995) argued there was an absence of a co-operative principle of management that was a dangerous omission. The ICA Identity Statement claimed "Co-operatives are based on the values of self-help, self responsibility, democracy, equality, equity, and solidarity. They practice honesty, openness and social responsibility in all their activities".

Such a general statement and the principles that follow it in the Identity Statement offer no clear guidance as to the nature of the role of management within a co-operative context. Davis (1995) proposed in his paper a statement of co-operative management as; "Co-operative management is conducted by men and women responsible for the stewardship of the co-operative community, values and assets. They provide leadership and policy development options for the co-operative association based upon professional training and co-operative vocation and service. "Co-operative management is that part of the co-operative community professionally engaged to support the whole co-operative membership in the achievement of the co-operative purpose". Davis 1995, p16) He concluded that the adoption of this principle of co-operative management would provide a criteria to guide managers and boards in ensuring that the co-operative enterprise is managed professionally and co-operatively. Democracy and involvement will remain key aspects of co-operative processes and market leverage and

distributive justice key objectives for those who would otherwise be mere disadvantaged price takers in the marketplace.

The principle of co-operative management also lays the basis for criteria upon which co-operative management, training and development can be judged and criteria by which management performance in the co-operative context can be judged. The assumption in Davis (1995) is that management is the key to organizational effectiveness and that in a co-operative context organizational effectiveness will require a particular style, culture and value set to be adopted by co-operative managers.

Van Dijk and Werts (1996) said that member participation is the co-operative organizations most important asset. They made an exposition of present criticisms of the co-operative model. Arguments against co-operatives are based on the agency theory model. Co-operative problems include: common property, portfolio election, planning scenario, decision taking process and control. These problems are not operative generally but only when members' participation is low. Agency theory is based upon the idea that every investment has an objective of producing profits on capital employed but it does not consider that an investment can have an objective of ensuring commercial relations. The authors argue that co-operative rationality and its presence in so many sectors and countries is better explained through Transaction Cost Theory, in agreement with an earlier paper by Staatz (1987).

An organization can invest in some assets just for working as a company. So, the group needs to protect its investments from members' hypothetical "dishonest" behaviour. Market theories do not work as expected. Van Dijk and Werts (1996) claim that members have the risk of being "exploited" in oligopolist markets. So, co-operative have the mission of reducing members' transaction costs, being useful in situations where market mechanisms do not work correctly. When these market mechanisms work as expected there would be no reason to maintain co-operative structures unless its disappearance generated the same problems that existed previously. If members consider the co-operative as important for them, they want to finance it, trade with it, they get involved in organizational control then they will accept rules and admit its corporate objectives. However, Van Dijk and Werts (1996) emphasised that member participation is not achieved by advertising and promotion but with the fact of being the members' best option.

Culture and values in co-operation

Davies and Donaldson (1998) have argued that the literature on management has evolved in a direction that has much in common with the principles and ownership structures adopted in the co-operative business model. They affirm that general management needs to have clearly articulated co-operative centred values based on stakeholder based management philosophies in order to permit the effective application of the latest management approaches. They cite as examples, the mission led focus on organizational culture, brand life style based marketing strategies, TQM, HRM and learning organization and intellectual capital theories as examples where the modern management literature could have been written with co-operatives in mind.

Davis and Donaldson also argue that pluralism in the market place is a prerequisite to its effectiveness and that co-operatives are important guarantors of pluralism in the market place. Profits are only one part of the added value created by production and distribution. They provide as a case study the UK Co-operative Bank to demonstrate that alongside banking products that meet customer needs at competitive prices real competitive advantage comes with the additional social added values that co-operatives are much better placed to provide. Co-operative management philosophy is also seen as essential in the struggle to ensure member participation and the continued adherence to the co-operative purpose in those larger co-operative and mutual societies which as we have seen across Europe and North America are under increasing pressure to be privatised. This pressure is often led by a co-operative management bureaucracy who lack belief in co-operative values. It is co-operative managements responsibility is to ensure adequate and fair benefits to all the stakeholders (including members) not to members as primary stakeholders disadvantage but to ensure delivery of high quality services to members.

Davis and Donaldson gave three reasons for co-operative management as the management philosophy of the future. First, it represents what consumers want, given autonomous choice (that is to say, the opportunity to decide what to produce, and not just deciding about minor variations on what producers want to sell). Second, it represents a logical development of management as a profession. There is no profession without ethics that put human beings in the centre of its practise. Third, management based on co-operative values is better situated for responding to modern economic realities as market concentration,

resource depletion and the urgent need to cut carbon emissions and reduce waste in general gathers pace.

Managers lead, boards govern

Davis and Donaldson also say that co-operative governance rests with the Board of Directors (directly elected). However, they need a mix of capabilities. Co-operative Boards however they are reformed will not be able to stop the tide of managerialism that endangers the continuation of co-operatives and mutual sector organizations. Co-operatives need a management culture that is itself co-operative led by a CEO who sits on the board and along with the board takes the responsibility for the board decisions, Co-operative Managers recognize that co-operatives require a management to take responsibility for the co-operative as a whole without any false distinction between the business side and the social side and who accept that the board does not any longer make policy independently of the their executive management. The goal of their work is to introduce the “seven principles for co-operative management” (Davis and Donaldson 1998, Chapter 5) as a basis to monitor management performance in co-operatives and as the foundation for management selection and development. They argue that the ICA Identity Statement as it stands remains without any operating principles for its implementation. Davis and Donaldson suggest that their seven principles outlined below provide a practical value-led underpinning for the practise of co-operative management in any co-operative business context. The seven principles are: pluralism, mutuality, individual autonomy, distributive justice, natural justice, people-centeredness, and the recognition of the multiple roles of work and labour.

Davis (1999) further develops these ideas in the application of modern management practices in the co-operative context. Davis (1999) develops the Davis and Donaldson (1998) central thesis that co-operative values, principles and structures provide co-operatives with their competitive advantage, and that enterprises based on mutuality and community are better placed to apply modern management concepts. Davis argues that Total Quality Management according to consumers’ led requirements, excellence in the organization and profitability are not wrong but that they have to be understood in a broader frame than just the market for commodities. This broader framework includes the consumers or end users social and environmental contexts. Recognition of this dimension provides opportunities for the addition of critical social added values adding to the competitive advantage for the co-

operative. Such social added value is in addition not in place of economic and product led specifications. Figure 1 presents and explains how the seven principles already quoted can be applied in an organization.

Davis (1999) claims that, paradoxically, co-operatives themselves have largely failed to utilize their human-centered values dynamically in their communications with their members, customers and employees (because the movement has paid little attention to what its values mean for management). Co-operative literature betrays this in its emphasis on democratic responsibility for policy execution. Earlier, Davis (1995), had challenged the idea of the Board formulating policy and management executing it as completely unrealistic for a co-operative seeking to be competitive and responsive to modern market conditions. The emphasis should be on co-operative managerial development and professional leadership with a unified board including a minority of executive management in full membership of the board made up of a majority of directly elected members.

Management accountability and member participation remain the foundations of the democratic governance of co-operatives but with the realistic recognition of the essential role of policy formulation undertaken by professional co-operative management. Davis argues that this approach could avoid a defensive and secretive management culture that leaves members without real influence and managers without vital information concerning member needs. Davis argues that the “civil service” view of management’s role in the co-operative does not enable a united community of stakeholders serving the needs of the co-operatives membership to emerge. Davis argues that members needs have to be understood as including their local community and their wider social and contextual needs. Recognition of the wider community and social contexts of their membership is one crucial methodology for deepening the social added values to members. Thus supporting a sustainable environment embedding co-operatives in society to their competitive advantage. This “civil service” approach has been underpinned by another false perspective concerning the supposed distinction between the co-operative’s social and economic roles.

Co-operative purpose and identity

Co-operatives are seen as being organizations formed as a result of the market economy but distinguished by their members being the cardinal stakeholders in the organization. He quotes Parnell (1995) and Takamura (1993) where the problem for co-operatives is

identified as: first, the loss of focus on the provision of benefits to members; and second, the loss of control by the cardinal stakeholder group (members) to a variety of other stakeholders or interest groups. Davis challenges this insistence that it is “benefit to members” that provides the core rationale for co-operatives and are the touchstone for defining co-operative purpose. Davis’s fundamental objection to this formulation of co-operative purpose is that benefit to members is too general and actually can be completely unrelated to the notion of co-operation at all.

According to Davis, co-operatives are not about individual membership and the benefits of membership in abstraction. Co-operatives are about the benefits of membership in association. The association’s purpose is to provide market leverage and access to resources (including information) that would not be otherwise readily available to the individuals who join. It is the overarching macro-level purpose of social justice through market leverage and the common strategy and end of community building that has the potential to unite all co-operatives into one socio-economic movement. Co-operation is about mobilizing economic and social resources to deliver economic and social justice and destroy dependency in the global market. Direct economic benefits of membership remain important as significant proofs that the co-operative is succeeding in its broader mission and as tangible reward for member loyalty and solidarity.

In his latest book (Davis, 2004) developed these ideas further in the light of the management literature on HRM, Human Capital, Intellectual Capital and Learning

Organization and Learning Community Theories. Here Davis argues that co-operative value led management recognizing the importance of seeing membership and suppliers as well as employees as part of the co-operatives human capital can develop a Co-operative Social Capital Management program to ensure that its information and knowledge base far outstrips that of rivals operating within a capital led business.

The author stresses that it is in the areas of leadership and corporate governance within co-operatives where the “double nature-civil service” view of management is so destructive. He says that management’s relationship cannot be based on separation from the membership who exercises formal control through a directly elected lay board. Rather management needs to form an integrated leadership of the community of labour (members) by being full members of the board. Directly elected boards of lay members have to be the right grounding for co-operative governance but Co-operative enterprise must be managed as a whole without the totally false distinction between the business and the social “sides”. Management has the responsibility to consult, survey and research members’ needs and the needs of the society to which they all belong. The latest market research, consultative methods and a member/customer oriented culture can provide more real information and involvement than the formalistic processes of annual and quarterly meetings that form much of the content of co-operative democracy. Direct democratic control by members is essential for maintaining accountability and ownership but it can never be a vehicle for the determination of business policy even though its inputs can be crucial in the process of defining that policy. Democracy must be never

Figure 1. The seven principles of co-operative management in a co-operative organization.

(Source: Davis P. and Donaldson J. 1998 reproduced as Fig 1 above in Davis 1999)

Pluralism	Members will find it in their interests to recognize other stakeholders.
Mutuality	Return on capital is not the primary criterion for co-operative membership; so, mutuality between stakeholders will be easier to establish as one reward does not have to be achieved at the expense of any other.
Individual autonomy	Respect for persons and devolution of responsibility but it underlines both the need for the organization itself to be defended from outside control and the autonomy of the individual member.
Distributive justice	A non exploitative sharing of resources.
Natural justice	The right to independent appeals procedures and the application of fair rules and processes.
People – centeredness	Recognizing that people whether employees, suppliers or customers are the subject nor the object of the business.
Multiple roles of work and labour	Work influences social status, consumption patterns and the whole structure of relationships in society as a whole. This provides along with people centeredness the additional rationale for corporate social responsibility. Co-operatives exemplify this principle by the combination of the social and the commercial. They mobilize the labour of small farmers, and workers both as employees and as consumers. Their principle of community helps to provide a holistic view of their customers, workers and suppliers.

placed above or in place of co-operative purpose. It is the totality of principles and values that determine co-operative identity.

Value-based management

Davis, (1999 and 2004) argues values should not be seen as some vague statement of little consequence for the reality of management. They act as sign posts directing the organization's definition of its standards of behaviour towards people (customers, members, employees, suppliers, competitors, other co-operatives and the wider community). Values and purpose lead to the evolution of policy. Policy provides the definition of the co-operative strategic objectives in terms of the organization and its key stakeholders, markets and investment priorities. Value-led policies generate in their turn programmes whose terms of reference implement strategies for the development of products, services and markets within customer determined quality standards and management determined cost parameters.

Organizations want their individual employees and suppliers to accept responsibility, work to recognized standards of performance and to do so with a constant focus on customer satisfaction. However, according to the author, it is the legitimacy of the purpose, the satisfaction of working towards shared values and the social recognition by management, by peers and by customers and the wider community that motivates the individual. The next step for the author is to consider co-operative values as levers for organizational development and competitive advantage. He proposes to develop the concept of quality to serve the co-operative purpose. He further suggests that this gives the stakeholders the means to judge management and themselves and it gives the lay membership clear criteria on which to judge management.

Quality management in co-operatives

Quality standards are driven by the customers' definition of what would be the best deal given their needs. There may be customers who are not the co-operative members, but members are always customers. Both require quality standards determined by their respective needs and aspirations. Organizations operating on the basis of community and mutuality are best placed to define customer quality standards because they can situate the whole person in their community and consider the product /service package in the light of this analysis providing a

potential for identification of additional added value for the consumer and hence a competitive advantage for the co-operative. The author argues that modern management approaches to customer led definitions of quality and stakeholder relationship based strategies for the delivery of quality can be applied successfully by co-operatives. He further suggests that these management philosophies and strategies can be operated more effectively in co-operatives than in the case of organizations whose ownership structure is based on capital.

Davis(1999) stresses that the key to the realization of both service definition and delivery advantages lies in the management and organizational culture engendered within the co-operative. It determines relations within the network of associated stakeholders. The author reviews the development of the concept of quality in management theory until Total Quality Management (TQM) and World Class Manufacturing (WCM). The interesting thing is that he thinks about the reasons for the failure in applying TQM concepts in business management. He points to several aspects that explain it but some points deserve to be underlined. Firstly, it ignores the fact that the vast majority of individual customers do not benefit from profits but from wages and prices and the user values incorporated in the products or services they consume. Secondly, it does not involve all the stakeholders. Furthermore, Davis (1999) speaks about two untested assumptions that explain the weakness in practice of the TQM / WCM concept. On the one hand, all management theories assume the legitimacy of the ends being pursued and the means by which they are pursued. On the other hand, values and culture are assumed as simply one more management tool amongst many others. Values are selected to legitimize and support managerial ends rather than a mean to question and define the ends themselves (as in the co-operative case). He concludes this argument saying that co-operative values are the ones that provide the basis to question and define business ends in human centered (TQM) terms.

At the end, Davis affirms that real quality management programmes require more than customer surveys and quality checks. TQM requires continuous close relationships with customers, suppliers and employees. TQM to be effective requires leadership, a supportive organizational culture and Human Resource Management (HRM) strategies. The author proposes the achievement of World Class Co-operative Quality (WCCQ) that develops TQM with the ingredient of added social value and protects TQM processes with co-operatives values and purposes. Three phases have to

be considered when introducing WCCQ: functional integration, stakeholder involvement and customer service. The operational aspects of quality management are based on devolved responsibility, investment in training and development, performance related remuneration, clear standards and procedures and customer care. At the end, and this is the key aspect that links Davis' book with our proposal, members' commitment is a key aspect because it brings better management information, quicker problem identification and solution, and the best promotional medium in the market place to the process.

Forms of participation

Mozas (2000) analyzed members' economical participation principle in agricultural co-operatives, looking closer at exclusivity. The objective was to get consequences for determining if, both agricultural co-operatives' performance and members' behaviour about exclusivity, constituted a useful tool for defending and ensuring the equity principles' fulfillment. It tried to link member's exclusivity self-fulfillment with efficient management. It undertook an empirical research among co-operative in Jaén (Spain). Conclusions were that member's loyalty was a business efficiency indicator.

Nácher (2002) said that human groups could be analyzed as net organizations in which information and knowledge flow among members for ensuring group survival in its relation with its environment. As members are rational beings, the group survival is a way to get individual survival (the real objective). It provided alternative explanations for the inhibition of member preference towards participation.

Mozas (2002) did an empirical approximation to member participation in agricultural co-operatives pointing the reasons that explain the breakdown in democracy in these organizations (lack of co-operative culture, members unawareness of the duties of decision taking persons, group size and heterogeneity, lack of training). She aimed to give a participation perspective taking into account elements that guarantee it efficiently and, to describe member behaviour related to participation through an empirical research. She concluded saying that members are responsible for practising a real democracy. Developing it depends on their willingness to do so. If members detect an unfair decision taking process this can lead to withdrawing their democratic participation. It could be interesting to ask if the unfair decision taking process is due to democratic participation withdrawal?

Co-operative HRM

Davis (2004) examines how the distinctive co-operative membership identity and purpose impact on HRM through the mobilization of all the co-operative's human resources. He affirms that change management (in culture and structure) are at the core of the challenges facing all co-operatives and without a strategic perspective, co-operatives will fail to understand and respond effectively to their business environment. The key to success in the process of change management is how well the co-operative manages its human resources. He suggests that co-operatives have a potential competitive advantage if they adapt the standard HRM framework to the developing concepts of Intellectual Capital Management and Learning Organization Theory. Put simply co-operatives can turn all their stakeholders into the co-operatives human capital. This is possible when they are driven by an agenda based on the provision of services rather than return on capital and have mutuality as a key philosophical underpinning in their relationship management. His aim is to show where theory and practice meet in formulating HRM strategies and concepts enabling co-operatives to make better use of all their potential human resources. Davis argues that a primary strategic objective of co-operative HRM is to establish a work culture that reflects and unites the co-operative organization and supply chain to its associational (membership) culture and its customer culture. This will achieve the best possible inter-relationships and responsiveness within co-operatives between their stakeholders. Co-operatives should invest in developing the human capital that makes up the whole co-operative network. In doing so, according to Davis, co-operatives can position themselves uniquely to respond to and develop their markets.

Two critical aspects of this argument, fit with this paper' goals (specially the first one). Firstly, the role of leadership and membership development and utilization of people in the co-operative context; and secondly, the importance of co-operative values as a benchmark for professional co-operative managers and as a cultural glue motivating and uniting all co-operative stakeholders into a "high performance" co-operative learning community, Davis (2004). In the first part of his book, Davis proposes a new framework referred to as Co-operative Social Capital Management (CSCM) for the application of elements drawn from Personnel Management, HRM, Intellectual Capital (IC) Theory and Learning Organization Theory. It provides a strategic

framework for managing knowledge and human capital along four key dimensions (organization, association, supply chain and customers). These all impact on the improvement of co-operative competitive capacity, the maintenance of the integrity of their governance, and their identity, values and purpose. It suggests that at the nexus of the four dimensions lies a co-operative community of interests that will provide for an enhancement of the intellectual capital formation for the co-operative and its stakeholders.

However, the book is interesting for this paper because it proposes a model for performance management based on CSCM framework. According to the author, performance objectives in a co-operative involve the achievement of sets of task-related goals based upon the business and social dimensions of the organization. These goals can be defined as falling into one of three key result areas: financial, social and environmental. It is a methodology for optimising all three key result areas to the competitive advantage of the co-operative and to the fulfilment of its purpose and identity. It illustrates four areas of analysis: dimensions, processes, outputs and monitoring. The author introduces some possible performance indicators to indicate success or failure for each of these key result areas through a case study. These indicators are:

- Financial bottom line: profit before tax, return on equity, operating income, operating costs, cost /income ratio, average retail balances.
- Social bottom line: financial contribution and number of community programmes and the number of people involved in programmes, customer and other stakeholders' opinions and perceptions.
- Environmental bottom line: waste disposal, energy use, paper and other materials consumption, levels of recycling, donations to charitable causes.

Another point of the model is to stress the fundamental importance of accurate, independent, regular and professional monitoring and assessment of co-operative performance being placed in the public domain. Furthermore, performance management relies on four essential elements. 1) Clear tasks and targets. 2) Proper resources and appropriate skills and knowledge. 3) A sense of significance and meaning in the goals and tasks themselves. 4) A supportive social context.

Methods for measuring co-operative success.

The first problem that appears when evaluating co-operative performance is how to analyze this performance? It is useless revising performance factors without setting a framework that allows for evaluation. It is impossible to undertake any analysis without clear and measurable indicators. Two sorts of studies can be considered. Firstly, conventional ratio analysis (Caballer et al., 1984; Segura and López, 1985; Romero and Domingo, 1987; Segura and Server, 1990; Segura and Oltra, 1995; Segura et al., 1998; Sabaté, 1999; Vidal et al., 2000a; Vidal et al., 2000b; Domingo 2001; Montegut et al., 2002). Secondly, studies looking at benefits co-operation generates for members and the environment (Caballer, 1982; Ballester, 1983; Caballer, 1988; Ballester, 1990; Del Pino Artacho, 1995; Montero, 1995; Bel, 1997; Del Pino, 1999; Juliá and Del Campo, 1999; Bel et al., 2000; García et al., 2002; Juliá and Marí, 2002; Mozas, 2002). The fact that these two groups of analysis evaluate (probably) opposed objectives complicates the topic.

Firstly, a co-operative can have a strong corporate image, based on a classical business plan and members can feel that their needs and objectives are not as satisfied as they could. Members can see co-operative success as a cost. The organizations amount of power, the punishments they could suffer if leaving or the lack of alternatives are reasons to stay. Secondly, there are co-operatives with no growth, no retained profits and a small market share, and members feel satisfied thinking that the organization fully helps to reach their personal interests. Obviously, reaching success both at the corporate level and at members' benefits and services level needs a balance between corporate and individual objectives because the organization and members are mutually dependent in the long term.

Davis (2004) challenges our previous assumption about member and corporate objectives. Both objectives have to be settled into a co-operative values and purpose framework following careful research of customer (member) needs in their widest social, economic and environmental context. The result is a relevant quality product and service at the right price delivered with an added social value which private sector rivals will not be able to match in substance or authenticity.

There are arguments that back the idea that co-operative evaluation should be done as for non-co-operatives. Co-operatives operate in a commercial environment, so they have to reach minimum

corporate requirements to allow survival and conditions for satisfying environment and members' benefits and services. However, financial indicators such as efficiency and profitability have to be carefully used when analyzing organizations that do not have as the main objective of maximizing profits through capital growth or dividends (Hind, 1998). A co-operative with the objective of paying the highest price for members' products (Caballer et al., 1985; Juliá, 1985) will have a very small profit but it could present a big sale volume. Efficiency ratios can be disturbed due to non-common services and payment policies.

Debt and other financial ratio analysis in a dynamic perspective offers a viewpoint of members' willingness to finance the organization reflecting their previous behaviour and their net profit expectations through their membership (Romero, 1980; Domingo, 1993; García-Gutiérrez, 1993). So, accounting information analysis can lead to wrong conclusions because the different organizational objectives can disturb results. Accounting standards remain essential tools for good governance. Co-operative success can be better evaluated looking at the services that it offers to members instead of looking at the profit it gets. This is right according to the idea that an important duty of accounting documents is to reflect business activity related to organization's objectives. Co-operatives should include in their reports references about members' satisfaction evaluation. The problem is the methodology for this evaluation. Hind (1998) said that the number of members could be linked to the members' perception about the benefits they get from the co-operative. Setting a "members' benefits list" could be a reliable method if the co-operative has no restrictive policies about members' admission.

A way to avoid these problems would be asking members to give a value for their membership. Members could personally quantify the value of better prices, bonus, timesaving, production techniques improvements and adequacy, safety, assurance and any other advantage that could be important for them. Obviously, a question to consider is their willingness to speak about it.

Proposed methodology for success evaluation

So, the co-operative is an economic organization must maintain democratic structures and decision taking processes in order to satisfy members and environment expectations (in a co-operative value and purpose framework), a complex approach must be

considered when evaluating performance. Two complementary approaches should be introduced: 1) conventional management analysis (ratios); members' benefits and services perception analysis; and 2) analysis of co-operative performance regarding the environment in which it operates (market structure, community's matters of interest, environmental responsibility, etc.) in response to the application of its co-operative purpose and organizational values.

Success can be defined as the fulfillment of declared objectives'. A co-operative is a coalition (due to the different stakeholders) with several objectives (Caballer, 1990). This objective mix leads towards a compromise or agreement, especially because co-operatives are about the benefits of membership in association. Four conditions for changing the system of objectives are required in an evaluation method: declared objectives must be really pursued through action; the system of objectives must be complete covering essential demands and all other result areas; objectives must be operational (with a clear understanding of controls procedures) and alternative objectives are evaluated according to their importance and priorities. It is convenient to separate the evaluation method in to phases for its study and appliance.

A first basic quantification of success is survival. It is useless going longer in co-operatives that are less than ten years old. Then, it is possible to introduce financial analysis for measuring the second step: growth. The third step is about members' satisfaction. Finally, the relation with the area where the co-operative is settled and how the co-operative develops its values and purpose has to be analyzed. It has to be considered whether the co-operative helps to solve market maladjustments, distributes welfare in the social environment where it operates, respects environment, etc. The remainder of this paper aims to concentrate on the third step: the satisfaction of member objectives as a measure of business success. Members will be satisfied about their membership if their expectations became objectives, these objectives have been fulfilled and members are aware of this fulfillment. So, whether objectives are determined by members, the degree of their fulfillment and members' satisfaction are strongly linked. The links that connect them are the system through which the organization sets its objectives and how members express themselves through the General Assembly and the degree of autonomy of the General Assembly in the setting of goals. These links are the procedures to verify agreements' fulfillment and the system for correcting deviations.

So, success evaluation as it has been proposed should cover several aspects:

- 1) The desire of creating a business structure antedates the desire of creating a co-operative.
- 2) Stakeholders' perception about the rest of groups, especially each member's perceptions about the rest of members.
- 3) The minimal set of common objectives and the importance of each group's objectives for the rest of stakeholders.
- 4) Members are really involved in the organization's strategy formulation. This concentrates on:
 - o Clear separation between strategy and management.
 - o Procedure for generating new ideas.
 - o Formal mechanism to prepare meetings and to obtain information from members before these meetings.
 - o Internal communication channels.
 - o Clear procedure for new members to enter the co-operative and the existing members monitor this procedure.
- 5) Members understand management and how this affects objectives' fulfillment. This specially focus on:
 - o Work procedures, jobs, tasks and responsibilities are clearly assigned.
 - o The co-operative has got an organization clear image.
 - o Members have a client clear awareness and a product quality concern from the consumer viewpoint.
 - o Managers and directors are controlled and updated.
- 6) Members declare themselves as satisfied about their membership.

The key elements of this method are members' participation and adequate objectives' settlement. These two elements are basic to define success and failure. The last two concepts should employ in a relative way "co-operatives are more or less successful" depending on members' expectations (which are the previous concept to members' objectives). So, it is interesting to relate success and failure to efficiency (rational use of resources) and efficacy (objective consecution). However, co-operative objectives arise from the equilibrium between donations and

requirements of the several stakeholders. So, objectives are the result of negotiation. The final agreement will show the real stakeholders' power. The limit is the organization survival.

Conclusions

This article emphasizes the participatory role of members as being the most important for co-operative success. In fact, the co-operative will be successful if members feel satisfied with membership. However, as it has been exposed, objectives are the result of negotiation between members, stakeholders and the co-operative as an organization. Conflict between members and the other stakeholders can prevent the achievement of the organization's objectives (which are common to members and CD).

However, as it has been pointed out "benefit to members" is too general and actually can be completely unrelated to the notion of co-operation at all. Co-operatives are about the benefits of membership in association. (Davis, 1999) The co-operative ownership structure, their value and purposes allows this form of organization to become an added value generator for all its stakeholders. Co-operative stakeholder' objectives and co-operative organizational objectives are not opposed but complementary. Problems could appear if short-term objectives (members' needs satisfaction) are more important than their long-term co-operative purpose.

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Promoting Peace Through Tourism: a role for co-operatives

Sanjay Kumar Verma

India's progress

In the recent years India has emerged as a major global power. India's economic reforms have made the Indian economy grow more effectively. A conducive climate for foreign investment has been created. Indian democracy despite its contradictions has given the nation political stability which has no doubt strengthened the country's development. However, despite all this India has been struggling with peace as the problems of poverty, unemployment, environmental degradation, social inequalities, insurgency, etc. continue to plague the nation. The strategies formulated to tackle these problems remain largely unsuccessful.

Boost to tourism

The economic liberalization in India has given a big push to Indian tourism. Tourism is today projected as an engine of economic growth and an instrument for eliminating poverty, curbing unemployment problems, opening up new fields of activity and improvement for the most marginalized sections of society. New opportunities are being tapped to promote eco, adventure, rural, postage, wildlife, health and herbal including medical tourism. With the increasing number of foreign tourists coming to India every year and domestic tourism gaining popularity, public and private sector bodies are actively involved in promoting tourism in the country. The international and regional dimensions of tourism are also getting due recognition. For example, travel links leading to establishing people-to-people contacts between India and Pakistan are given prime importance. As a result of this, tourism has been instrumental in softening the relations between India and Pakistan.

Peace through tourism

At a time when tourism initiatives have gained momentum in India, the situation is ripe for popularizing the concept of "Peace Through Tourism" in a big way through strong advocacy and practical action. Tourism as a strategy to promote peace by solving the problems of poverty, unemployment, etc. can succeed if effective inter-linkages are established between "tourism initiatives" and "peace", and appropriate action plans are

devised accordingly. India has strong community and democratic ethos. Community-based initiatives rooted in people's participation have been quite effective in India in solving the socio-economic problems of the people. They have also been successful in building up strong collaborations based on people's efforts which have led to creation of a peaceful and cordial atmosphere. In fact, the peaceful under-currents of Indian democracy are evident in the working of community-based ventures. Limitations of the centralized form of planning have compelled the policy-makers to pin their faiths on such people-based ventures. The paper argues that if the tourism strategies are geared towards involving the community-based organizations, they can promote peace in a real way.

Co-operatives and peace

Co-operation means living and working together. It is working together to learn to live in our society peacefully and harmoniously. 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. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others (see ICA Identity Statement 1995).

In an age of declining values, peace can remain elusive if the values are not well propagated and communicated to the society at large. No doubt, in this scenario the value-based organizations have an important role to play in peace-building. The co-operatives have a strategic advantage over other organizations in this respect. The principles and values of co-operatives are the best guidelines to create a sustainable and peaceful world. They are intended to safeguard the human rights and enable the members to practice democracy and enjoy freedom of action. Co-operatives are the organizations which have strong community roots. They are embedded within the communities in which they exist. They work for sustainable development of communities through emphasis on values which create a peaceful atmosphere within the community.

Co-operative contribution to peace: an Indian perspective

Some 760 million people around the world are members of co-operatives. In Kenya 20% of the population is a member of co-operative, while in Argentina it is over 29%, 33% in Norway, 40% in Canada and US. The contribution of co-operatives to poverty alleviation can be gauged from the fact that they provide 100 million jobs and in some countries and areas are among the largest employees as in Columbia where health co-operatives are the largest employer.

Worldwide the co-operative movement has contributed to peace by helping eliminate poverty, sustain environment, provide employment, and enrich social standards of the people. The value-based orientation of the co-operative movement has played a crucial role in checking the capitalist tendencies in the society by creating an equalitarian society through which chances of conflict are minimized.

In India the co-operative concept has worked wonders. Starting in 1904, the co-operative movement has made rapid strides in all areas of socio-economic activities. Today, there are more than 5 thousand co-operative societies in the country with a membership of 23 million and working capital of Rs. 198,542 million. IFFCO and KRIBHCO are two co-operative fertilizer giants which have matched global standards of performance. The co-operative credit institutions are disbursing 46.15% of agricultural credit and co-operatives are distributing 36.22% of total fertilizers in the country. Dairy co-operatives in India with their strong and extensive network have excelled in their areas of operations. They have ushered in milk revolution in the country. India is the largest producer of milk in the world. The housing co-operatives in India have not only reaped economic reforms, but have also contributed to peace through promoting social harmony and community living.

The co-operatives in India have played a pioneering role in saving the poor from clutches of moneylenders by providing them credit at reasonable rate of interest so that they may start economic activities through a long chain of credit co-operatives set up at various levels. Besides, the co-operatives have convinced the poor that they are the institutions for their welfare, not exploitation. In the recent years the Self Help Groups based on co-operative principles have mushroomed in large numbers which have mobilized the rural poor by providing them avenues of income generation.

In India the co-operatives have played an important role in employment generation. About 15.47 million

individuals are employed in the co-operative sector and the number of persons who are self-employed in the co-operatives are more than 14.39 million. The co-operatives have shown their strength in social sector too. For example, the sugar co-operatives in Maharashtra have contributed to the fields of education and health. In the field of environment, the co-operatives have played an important role in environment preservation. IFFCO, has played a laudable role in protecting environment through pollution control measures through its plants and farm forestry co-operatives.

Co-operatives and tourism

Considering the contribution of co-operatives to the education and conservation of community, culture and peace through economic development and the promotion of their values of co-operation through mutual benefit it is natural that the co-operatives are well positioned to strengthen the positive agenda of tourism. Tourism has the potential to spread the message of peace through understanding. If culturally based tourism becomes a key agenda of all the nations, a peaceful world order is bound to emerge. Institutions like co-operatives can play an important role in promoting culturally focused tourism. In India tourism policy shift towards promoting decentralized forms of tourism in which the participation of all sections of society is clearly visible. So far however instances of co-operative involved in tourism in India are negligible and the Indian co-operatives are missing an important development opportunity where they can play to their strengths.

COOPTOUR (cooptour@gmail.com), a co-operative organization of 55 members, is involved in mainly ticketing and outgoing tourism. Besides the business and support from co-operative organizations, its professional services has led to increasing business with non-co-operative organizations. COOPTOUR feels that it has tremendous opportunities of growth in the areas of international co-operative tour packages, transport, rural tourism, etc. if there is full support from national and international co-operative organization.

The government has identified rural tourism as one of the growth areas. The strength of rural tourism lies in the villages, and the co-operatives are organized in 100% of the villages. A large segment of foreign tourists have a high level of involvement in whatever they do about rural tourism as they want to participate in cultural affairs, traditional lifestyle, etc. The co-operatives in the rural areas in India have strong cultural affiliations. The co-operatives can not only

acquaint the foreign tourists with rich culture of the region, but they can also understand their urge to participate in and experience the local culture closely. The co-operatives can play a big role in strengthening international bonds of cultural heritage by making the tourists feel that they are a part of co-operative culture which is built on peace. Formation of tourism co-operatives for guiding, escorting, maintain local handicrafts, etc., can generate jobs, and end their poverty. In India the primary agriculture co-operatives are the strength of the co-operative system in the rural areas. They can promote rural tourism directly. Their contribution in poverty alleviation along-with their emphasis on rural tourism as a potential area of development can be important in promoting peace.

The Indian Government is already sensitized on the importance of rural tourism, and the need for involving community based organizations in this field. The UNDP-Ministry of Tourism Project which has been started in India talks about strong community-private and public sector partnership for giving a boost to rural tourism. The Government has decided to develop necessary infrastructure for promoting rural tourism and has identified 31 villages to be developed as tourist spots. UNDP is helping in areas of capacity building, involvement of NGOs, local communities and artisans, etc. There is a dominant view that co-operatives and NGOs are the best agencies to promote rural tourism. Uttaranchal is a top tourist state in India. The Government is involved in formulating effective tourism strategies to promote tourism in the state.

Uttaranchal Government has launched Community based tourism in which certain number of villages clusters are developed for attracting foreign tourists. Development of environment friendly tourism development is a focal area of tourism policies in Uttaranchal in which co-operative societies of rag pickers are formed so that the environment is not affected. Similarly, tourism leading to self-employment ventures is also noticeable in Uttaranchal. Self employment scheme in which the focus of project is on setting up small hotels, is being implemented. The large number of beneficiaries benefiting from the scheme is a symbol of its popularity.

Infrastructure is the biggest stumbling factor in development of tourism. The co-operatives which have stronghold over the rural areas in the recent years have taken initiatives to promote infrastructure development. For example, the dairy co-operatives in Gujarat have built up the roads, and have come up with schools. The areas in which co-operatives are strong in infrastructure can be developed for

formulating effective tourism strategies. The Government is willing to support the co-operatives who desire to come up in the field of tourism by providing them assistance in infrastructural development.

Ethical tourism

Co-operatives by practicing ethical tourism can promote peace and justice in a big way. In India insurgency has been an age-old problem. For example, Jammu and Kashmir has struggled with terrorism for a long time. In this respect, an example of Manchester based workers co-operative practicing ethical tourism is worth mentioning. Olive Co-operative (www.olivecoop.com), a small workers co-operative in Manchester has been achieve on organizing 'solidarity' tours to Israel and West Bank to meet Palestinians and Israelis working at the front-line for peace and justice, in their communities and with national and international organizations.

This has useful pointers for India where workers' co-operatives can be formed to promote ethical tourism. Even in the areas which are effected by natural disasters, ethical tourism, can be an effective instrument to promote peace. For example, in the Tsunami hit areas in South India, need was felt for community based organizations to spread the message of peace. The co-operative in the India due to their effective community inter-linkages can promote ethical tourism in areas of inter-communal tensions. The National Co-operative Union of India along-with International Co-operative Alliance is already involved in rehabilitation work in the tsunami hit areas.

Challenges to the progressive implementation of cultural tourism for peace and understanding

It is important to recognize that there are challenges as well as opportunities in this policy. Not all tourism leads to peaceful interaction and improved understanding. Much tourism today is predatory as with the high incidence of prostitution and child sex tourism attracted to the tourist centers across the Asia-Pacific region and world-wide. In many place in Africa hotels and tour operators create physical barriers between the locals and the tourists where the formers only access is as cheap labour servants and if not managed carefully interactions in markets and bazaars can lead to the reinforcement of barriers and stereotypes by both groups. Ensuring fair prices in exchange cannot be reduced to a simple matter of roadside bartering.

Co-operation does not of itself automatically lead to peace either as their communal roots may reflect ethnic divisions rather than transcend them. India and Sri Lanka could both be presented as cases where co-operatives have failed to live up to their promise in regards to the reduction of ethnic tensions. The former Yugoslavia had a booming tourist trade and co-operative sector but neither was able to stem the tides of communal violence that led to that states break-up.

The environmental, economic and cultural impact of tourism can also be quite devastating leading to communal breakdown and social fragmentation. Tourist centers “bright lights” acting as a magnet drawing the young away from their villages and off the land to work in bars and night clubs undermining their cultural identity and a balanced local economy. Big hotels drawing of scarce fresh water resources away from local villages, the destruction of habitat and natural amenities, the air pollution of increased air travel, increased congestion etc all need to be planned for and mitigated. But perhaps the most dangerous aspects are cultural with drink and drugs cultures emerging in tourist hot spots and a predatory materialism being the “education” provided to the locals through the experience of tourism.

If these negative impacts of tourism are to be prevented the co-operative agencies in the tourist and general sectors need to come together in the localities and plan how it is to be managed. Strategies and policies for encouraging the right segment and quality of tourist and discouraging the wrong segment needs to be a priority. Promoting pride in local culture and protecting the dignity of the individual should have at least equal priority to economic development. Higher prices based on fair wages, high environmental standards, and higher unit costs due to controlled volume will be necessary.

The development and conservation of appropriate hand craft skills, with additional training will be necessary for the local people in order that instead of just purchasing souvenirs the tourist gains an opportunity to develop skills themselves and experience rather than merely be spectators of the local culture. Few local communities as yet possess the necessary understanding and skills to manage their tourism and their tourists in ways that protect, conserve and develop rather than merely exploit their culture and its achievements. This is also important because it can be the tourist too who becomes a victim. If ethical tourism to lead to peace through understanding then it must aim for the educational and cultural enrichment of the tourist.

Co-operative diversification and tourism

A review of the co-operative trends in the recent times indicate that co-operatives are aware to diversity in new areas like tourism. The India tribal life is rich in cultural tradition. Tribal life and tribal products can emerge as focal areas in tourism. Tribal Co-operative Marketing Development Federation of India is the national level organization of tribal co-operatives in the country. It has already identified certain regions for promoting tourism. The organization stands for holistic development of the tribal sector in all aspects and in this regard tourism is considered an important component. TRIFED is planning to start Tribes shops in all the major international airports so that all the traditional and ethnic tribal products are showcased for foreign tourists.

The example of TRIFED clearly indicates that co-operative sector is aware of the need for marketing its products from a tourism point of view. UHP milk powder is already distributed in all the pilgrimage tourist sites. The co-operative products have developed strong brands which clearly indicate that co-operative principles and values can be used for effective business. For example "Amul", brand of Gujarat Co-operative Milk Marketing Federation is a household name in India signifying milk revolution. Properly marketed co-operative products can spread a message of peace.

Ecotourism needs the most sensitive management anywhere and India is no exception. Tourism initiatives providing eco friendly clean environment with emphasis on sustainable development will help to promote peace. A successful example of a co-operative in India venturing into eco tourism illustrates the possibilities very well. Medially Fishermen's Co-operative Society (MFCS) in Calcutta is a successful fishery co-operative which has successfully utilized waste water to produce fish. It has a membership of 100 fishermen and around 300 families of fishermen are dependent on the society. The genesis of the co-operative can be traced when fishermen in Anta village of Howah had to migrate to wastelands near Kolkatta Dock in search of jobs due to drying up of Damodar River. By using the urban refuge and polluted water of the city, the society now undertakes these activities:

1. Improving waste water quality
2. Using waste water to produce fish, marketing fish, etc.
3. Providing credit facilities to fishermen, engaged in poultry, piggery, dairy and cottage industries

4. The society has now ventured into developing a Nature Park which has now emerged as an important tourist spot for city dwelling locals in a city where pollution remains a big problem. The Park has attractive boating facilities and an ecosystem has been created that attracts many birds. The animal park is another attraction having deer, rabbits, tortoise different kinds of ducks, etc.

The society has adopted professional norms in functioning. The production of fish by the society has been high. The example of this society indicates that co-operatives involved in preserving environment can venture into tourism activities by diversifying their operations.

Conclusion

The tourism scenario in India is ideal for formulating effective tourism strategies for promoting peace and sustainable development providing the industry standards are set along co-operative rather than a capital centered agenda. The Indian co-operative

movement has an important challenge to rise too here which will require investment in its own human resource development to ensure the knowledge, skills and values necessary to protect both the culture, community and ecology of the tourist centers whilst ensuring their economic viability and a truly enriching experience for their tourists.

The National Co-operative Union of India is the apex organization of the co-operative movement. As a promotional organization with emphasis on training, education, advocacy, research, and publication, NCU is in a good position to promote ethical rural tourism in the country. Taking into account the possibilities as well as the dangers of tourism to Indian society and worldwide co-operatives have a key responsibility to their members and their communities to take a proactive lead in ensuring tourism's sustainable development by advocating ethical tourism principles and policies with international tourism bodies like IIPT, WTO, etc. and through the forging of development collaborations with Indian co-operatives in the field of tourism.



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Edited by Yair Levi

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Compiled by Olive McCarthy

Summaries of papers from abstracts selected of papers the XXI International Co-operative Alliance, Co-operatives Research Conference, held in University College Cork, 2005 for readers of the journal.

Governance

Cabo, Paula Sofia & Joao Rebelo

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Governance Mechanisms in Portuguese Agricultural Credit Co-operatives

Co-operatives are present in almost all sectors of the economy. Portuguese agricultural credit Co-operatives (ACCs) have played a significant role in the national banking system. In terms of branches, today, they are the second largest national banking network with a standalone brand. Like other co-operatives, ACCs are complex units relating decision-making and control processes, with a deviant ownership structure and a deviant control structure deriving from the organizational goal: to provide the best service to its members without profit.

In western countries, the specific mission of co-operative banks is no longer defined by the situations of abuse or absence of services as the initial conditions. Members now experience their relations with their co-operative in a highly evolved competitive environment offering choices as much at the individual levels as at the level of collective action. In this context, has particular importance how the governance of these units is exercised. The main objective of this paper is to explain the governance mechanisms in the ACCs. To achieve this goal we collect data from ACCs specific legislation, official reports (financial statements and others). Afterwards, we analyse how this governance mechanisms perform, using an econometric model. So, we estimate a multinomial logit where the dependent variable reflects the several different situations of governance intervention: no intervention, board of directors' change, replacement of the chairman, merger or regulators' intervention. As explanatory variables, we used some financial ACCs performance: bad loans, administrative costs, financial margin, ROA and leverage.

Levin, Michael

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Board composition of Swedish social enterprises: Governance theories vs. co-operative philosophy

This paper contains research results from 15 Swedish Work Integration Social Enterprises in the field of board composition. Adapting two contrary governance theories, – namely resource dependence theory and multi stakeholder theory – for the specific situation of Swedish social enterprises, a hypothesized board composition with external members (outsiders) was to be expected. The research shows that in contrast to this expected outcome, only 40 % of the sample had an externally recruited board. 9 out of 15 (60 %) social enterprises opted for an insider board without external board members, in compliance with co-operative philosophy, principal agent theory and Swedish association law. One way of merging possible performance advantages for social enterprises (according to the resource dependence theory) and co-operative principles could be a specific board composition: internal association members as ordinary board members with voting rights and outsiders as external adjunct board members without governance power.

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Corporate Governance And Self Regulation In Credit Unions: The Role Of Credit Union Supervisory Committees 1997-2002

The supervisory committee occupies a position in the corporate governance structure of Credit Unions similar to that of non-executive directors or audit committees in the publicly listed company sector. During the years covered by this study, supervisory committees gained a much higher profile in the Credit Union movement than they had previously held, culminating in the founding of a new needs-based national support organization, The Supervisors' Forum.

This paper reports on a study which identifies the issues of concern to the supervisory committees in the earlier years of the study. The study also shows that many of the earlier concerns of supervisory committees appear to have been addressed and resolved in the period of the study. The study also reveals that though supervisory committees are very active in the performance of their duty, a substantial

gap exists between this duty performance and the level of reporting compliance as required by the Credit Union Act (1997).

Values and identity

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How Consumer Co-ops Compete by Preserving Community Identity: Case of Tsuruoka Co-operative

Consumer co-operatives are facing increasingly tougher competition everywhere. The principal competition has been fought in the economic term; i.e. how to improve productivity to lower the cost/price but they are also competing by demonstrating the social and cultural differences. Especially the co-ops in the rural area are more deeply rooted in communities in comparison with ones in the large megalopolis where the rootless metropolitan culture prevails. Here I'd like present an example of Tsuruoka Co-operative where Han groups were invented in 1950's.

Tsuruoka Co-operative is located in the rice belt in the north of Tokyo. Although it is operating retail stores and joint buying through Han groups in local cities and rural areas with shrinking population, it is not weivered from competition by nationwide chain stores like Aeon. It is pooling its buying power in the Consortium together with Miyagi Co-operative and Iwate Co-operative. It is also consolidating its store operations by discontinuing the unprofitable ones. Its competitive edge is being developed by the direct transaction with producers (Sanchoku). It is collaborating with agricultural co-operatives under the slogan 'Consume locally grown produce'. It also features 'Today's catch from seashores' brought by fishery co-operatives. Thus it is encouraging co-operative linkage to the local economy.

To cope with the rapidly aging population, it has made efforts to create the community based on health-medical-welfare network. Tsuruoka Co-operative and Shonai Medical Co-operative had developed long-standing collaboration. They have collaborated in running the fitness centre and rehabilitation hospital. They jointly created social welfare corporation to run day care facilities. They also created business co-operative to run service house. They provided man power to run these facilities while worker co-operatives provides home care services. Their membership basis is largely overlapping and they are planning to have common member relationship officers.

These practices can be described as co-operative community as advocated by Dr. Laidlaw. But there are

some shortcomings; weak links with local authorities and nonprofits, and lack of participation of women's leaders. If they can solve these problems, they will become a model for co-operative community regeneration.

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New Generation Co-op; Limited Liability Corporation, Value-Added, and Demutualized. What is still "co-operative" about American agricultural co-operatives?

Many American agricultural marketing and farm supply co-operatives were created during the 1930's and 1940's in response to poor services or unfair prices. This exploitation led agricultural economist Edward Nourse to formulate a model of co-operative organization popularly called the "competitive yardstick." Developed in 1945, this model established co-operatives and other firms as adversaries, a cultural message which persisted until the end of the 20th century.

The contemporary phase of co-operative culture and economics is the "value-added" co-operative. The economic importance of consumer-branded products has led co-operatives to develop a less adversarial, more participatory, open culture. Other firms or outside investors are now a part of co-operatives through joint ventures, limited liability corporations (LLC's) or subsidiaries. New generation co-operatives or investment vehicles like the preferred non-voting stock offered by CHS, Inc. (St Paul, MN) bring capital from non-farm investors into the co-operative. Co-operatives may even de-mutualize to gain further access to capital.

Considered within this paper is the extent to which available case studies and interviews suggest that these new organizational forms represent an irreversible "creeping privatization" within American co-operatives. Cook (2004) suggests that co-operatives should be viewed as elastic organizations who can transition from representing producers with a similar commodity interests to representing investors whose only similarity is maximizing return on investment (ROI). This view suggests that co-operative and corporate culture will eventually overlap. We take a less predetermined view of co-operative evolution in part based on our study of the demutualization of California-based avocado co-operative Calavo (Stanford and Hogeland (2004).

We hypothesize that globalization and free-market economics (neo liberalism) may indeed force co-operatives to become more profit-oriented or

corporate, but only after passing a certain cultural or economic “threshold” does the decision to convert seem inevitable. Our study uses interviews and case studies drawn from traditional, hybrid, or converted co-operatives to predict and explain where co-operative culture has come from and how it will unfold.

Ethics and consumer education

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The teaching of co-operation in the web. The values of co-operation meet hacker ethics?

In recent years the interest of the researchers of e-learning has shifted from technology towards the elements that promote and prevent the meaningfulness of e-learning and especially towards the possibilities of learning in groups and the construction of knowledge. In practice this has led to national research publications introducing different results and lists of the features of meaningful e-learning or pedagogic usability (Nevgi & Tirri 2003; Horila, Nokelainen, Syvänen & Överlund 2002.) However, the future trend of the research of web pedagogy is the evaluation of societies where the common construction of knowledge and problem-based learning with the so-called open code is common, and the transferring of these practices into e-learning.

Examples of this can be found for example among Finnish enterprise hatcheries like Tiimiakatemia or Intotalo or in the process of the Linux operating system, created by Linus Torvalds. Pekka Himanen writes in his book “Hacker ethics and the spirit of the information time” (2001) about hackers, for whom the starting-point of the work is a problem meaningful to themselves. A hacker publishes this problem to other hackers and usually attaches to it his own solution of

solving the problem, which other hackers can freely use (deliver, test and develop). What is interesting, is that this description has a connection to the principles of co-operation, presented by ICA for the 21st century.

These include for example voluntary and open membership, democratic administration of the members, independence, education, learning and communication and co-operation between co-operatives (Pättiniemi & Tainio 2000). Are the employees of a functioning co-operation hackers at best, how about the students of co-operation in the web? A lot of the same elements (e.g. concern for community, networking, member participation, democracy) can be found in the literature on meaningful e-learning and the principles of co-operation. The study of e-learning, which is partly marking time, is being directed towards societies, whose operations models have a clear connection with co-operative enterprises. All these are a rationale for the mapping out of the principles of successful e-learning and co-operation and for describing and studying the concrete junction of these, the e-learning of co-operation.

The target group of the study were the students who have taken part in the Study COOP training of the Ruralia Institute of the Helsinki University. Most of the students were the teaching personnel of the Mikkeli Polytechnic and the Pieksämäki unit of the Deacon Polytechnic. The further education course started in September 2004 and ended in April 2005. The students of the course were asked permission for the study. The course included three different web cycles, from which information was gathered by web questionnaires and the course of the web discussion was also analysed afterwards. In addition to that, research material was collected from the university-level web course in October to December 2004.



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