

# Coop Resilience in the Face of the Economic Crisis



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(Excerpts from the ICA ROAP Think Tank Consortium)

August 1998



Organised by:  
International Co-operative Alliance  
Regional Office for Asia & the Pacific  
New Delhi, India



Hosted by:  
National Confederation of Co-operatives  
Quezon City, Philippines

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August 1998

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*Designed and printed at Document Press, HS 14, Kailash Colony Market, New Delhi-110048.  
Tel : 91-11-6432836 / 692316. Fax : 91-11-6463593*

## **Foreword and Acknowledgement**

As the economic meltdown in Asia intensified in early 1998, a fresh initiative was launched by ICA ROAP to bring together ICA international partners, members, and thinkers for an uninterrupted session in Manila, and analyze the impact of the crisis on their respective co-op organizations.

It came as a surprise to witness the strength and vibrancy of many co-operatives in the face of the economic crisis. The discussions which ensued centered on what ICA and its strong members can do to maintain their good record and performance so as not to lose their lustre, and what measures are called for to assist other members that are more adversely affected by the crisis.

The excerpts contained in this small booklet bear testimony to the resilience of co-operatives amidst the deepening crisis while resisting complacency. Indeed, excerpts are not the same as well-written essays or comprehensive reports. Yet they may serve as a quick reference to remind us how co-operatives can remain rich and vibrant in spite of difficult challenges, and *why it must be so*.

In hindsight, the first Co-operative Think Tank Consortium (CTTC), as it was called, was considered a practical way by which international partners, (strong) members, and ICA can shape collaborative mechanisms through joint understanding of current trends and future needs. Not just a flat and dry consortium as we have seen in the past.

A special word of thanks must go to NATCCO who hosted the first CTTC with efficacy, and to all participants who made it a constructive effort for sharing present and future growth of co-operatives.

**Robby Tulus**

Regional Director (Asia Pacific)  
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## Issue Based Perspectives

“Recent developments in South East Asia, triggered by the unstable currency in Thailand, raise concerns about the long term economic stability in this region.

Like real-world markets, real-world governments are imperfect. Real-world governments are susceptible to multiple forms of government failures : ill-defined goals, poor management, information deficiency, rent-seeking behaviour, rent-creating behaviour”.

Co-operatives can offer an alternative model or a new paradigm in social and economic development thinking (in this region), because successful experiences among co-operatives practicing the ICIS – albeit still relatively few in numbers and usually micro-based – offer insights into organizing sustainable communities, while enunciating good governance and value-based management.

## PHILIPPINES

The impact on co-ops has been mitigated by a number of factors. In general, co-ops have no dollar transactions. They are not import dependent. Neither they are heavily in debt. And they are generally liquid. Nonetheless, the currency crisis has had an impact on co-ops' operations. Some co-ops experienced withdrawals due to aggressively high rates offered by some banks. Some members who have been laid-off have also become delinquent. Consequently, co-ops have become more cautious in lending.

However in general, liberalization and the El Nino have effected co-ops more than the currency crisis.

The following strategies may be employed to strengthen agricultural cooperatives :

- Development of Agri-business Management Expertise
- Livelihood and Entrepreneurship Training
- Technology-Transfer
- Financing Coop Agri-Business
- Development of Coop Marketing Grid
- Special Projects
  1. Manufacture of Fortified NPK Organic Fertilisers (granules, pellets, liquid)
  2. Rice Strawboard Processing Plants
  3. Coop World Trade Centre
  4. Farm Guidance
  5. Fishery Cooperative Development Program
  6. Program on Professionalizing the Management of Agricultural Cooperatives
  7. Amalgamation of Agri-Coops.



The intractable nature and magnitude of unemployment particularly in the Asian and the Pacific developing countries, calls for new ideas innovative organizational approaches and bold leadership if any real progress is to be made in solving this problem.

The basic message is that the best approach to economic recovery combines **growth, solidarity, responsibility and participation**, an endeavour in which employment, labour market and cooperative development policies play an important and interactive role because economic and social progress must advance together sustained by vigorous and permanent education and training efforts.

Nine key areas may affect directly – positively or negatively – the cooperative development.

- formulation of general policies on cooperative development;
- cooperative legislation;
- promotional strategies and supervisory authorities of cooperatives;
- cooperative audit;
- cooperative Management Consultancy (CMC) Services;
- human resource development (HRD);
- granting of privileges and concessions to cooperatives;
- savings, credit and banking structures;
- special target groups.



# CANADA

## CCA

Your meeting here will be focusing on the issues of governance and civil society. Since the current economic crisis appears to be very much about governance, the topic is timely. Just as the financial crisis in Southeast Asia is testing many of our assumptions about the operation of free markets, so the gradual withdrawal of the state from the economy is challenging prior assumptions about the way co-operatives should operate.

The currency crisis in Asia is of course a challenge for everybody. Don't forget that Canada went through the same thing in the late '80s and early '90s. We too had historically high interest rates, high rates of bankruptcy, of unemployment. We're on the other side of that now with a strong economy. Lots of restructuring are taking place in corporate Canada and unemployment rate is just still too high but is falling. And we've got the balance sheet of the nation pretty well cleaned up – but not without a whole lot of sacrifice. What we see Asia going through today, we have been there. And we were there in a very big time.

Canadian co-ops represent a whole spectrum of their members concerns and preoccupations. They range in scope from local to national; they range in flavour from the socially-oriented to the business-oriented. We have found there is room, and a role, for all these variations. Canadians believe that our cooperative strength lies in diversity.

The co-ops offer the potential for demonstrating the application and the practice of democracy, thereby contributing to the creating of a stronger civil society, able to monitor and influence the exercise of good governance.

## DID

Will Financial Cooperative Networks be significant socio-economic stakeholders of the New Millennium?

YES, if we stick to:

- Important Issues
  - Legal framework
  - Sufficient Capital
  - Today's Technology
  - Network Integration
  - Qualified Human Resources
- Added Value of Financial Co-op Networks
- Imperative Adaptation
- Continous need for adequate Supervision and Regulation

# INDIA



The crisis in the economy in the South East Asian Region in the recent months had only marginal impact in India so far. However due to liberalisation and globalisation of the economy it is hard to insulate the economy completely from turnmoils in the region. Competition in the economy is growing and efficiency is the keyword for cooperatives to be competitive. Those cooperatives, which are financially weak and operationally non-viable will have no future as government patronage and government support will be out of tune as a matter of government's new economic policy and reforms package. This could lead to certain structural adjustments even in cooperatives with emphasis on self-reliance, financial viability and operational efficiency. Cooperative – as economic enterprises have to be more business like and less as agencies promoted and supported by the Government for implementing the Government sponsored programmes for realising the socioeconomic objectives. This calls for drastic changes in the Government policies towards cooperatives and comprehensive amendments in the Laws governing operations of cooperatives.



## INDIA

The fertiliser co-operative sector, has not been affected due to current economic reforms. This has been made positive due to efficient operation of the plants in the cooperative sector as well as its marketing strategy. The cooperative sector is quite competitive and is in a position to take challenges arising out of economic reforms.

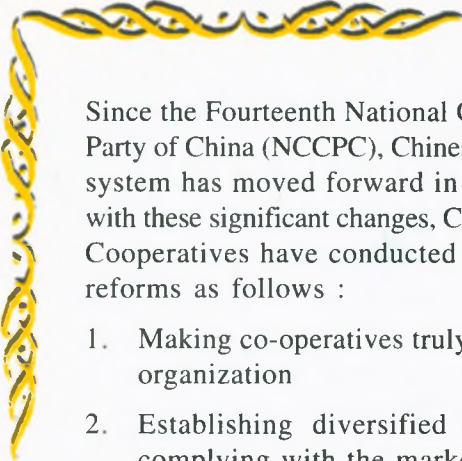
The IFFCO's experiences thus has clearly demonstrated that a cooperative society can succeed even in high investments and high technology areas like fertiliser production. The institution has been able to sustain and make growth better not only compared to public sector but also the private sector. The institution has also adhered to the Principle of Cooperation both in theory and practice. The entire production is marketed through the cooperative system. The large scale expansion and promotional activities and various programmes for the development of cooperative system at the grass root level has established a very positive bond between IFFCO and its members who live in rural India. The confidence generated by this success has paved the way for a vigorous growth programme and thus the institution has the credit of making large scale expansion of its three plants in a single year, i.e. December 1996 to December 1997 with an investment of US\$ 656 million.

The top management is quite confident that the society established in 1967 will emerge as a global leader in production and marketing of chemical fertiliser located in a single country. The society is committed to serve the rural populace in nooks and corners of the vast country and also planning its activities outside the boundary of India.


The basic philosophy of cooperation, particularly of democratic member control and concern for community, has been the soul of decision making in IFFCO. We have followed and translated the Principles of Cooperation into practice and IFFCO has grown because of its commitment to these principles. IFFCO has gained enough experience and expertise to develop a large scale economic cooperative venture with a dedicated work of over 25 years and this experience is ready for being replicated in any part of the world and more particularly in Asian and African regions.

# CHINA

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Since the Fourteenth National Congress of the Communist Party of China (NCCPC), Chinese socialist market economic system has moved forward in an all-around way. In line with these significant changes, China's Supply and Marketing Cooperatives have conducted new exploratory and pilot reforms as follows :

1. Making co-operatives truly framers' owned economic organization
  2. Establishing diversified specialized co-operatives complying with the market
  3. Accelerating the steps of co-operative legislation
  4. Reforming the co-operative enterprises to meet the need of market economy
- 

## SINGAPORE

The Co-operative Movement in Singapore has been able to weather the economic crisis well. Its two largest co-operatives, which account for 89% of the total membership, are financially strong and robust and have been able to respond well to the impact of the crisis.

They will have to continue to improve their business efficiency and competitiveness, respond to the changes in the market brought out by customer preferences and globalised competition, and strengthen their co-operative identity and values.

The crisis has made it more urgent for the credit co-operatives to improve their business efficiency and management. Two projects are being implemented and will now be accelerated. One project aims to provide computer services to these co-operatives through centrally operated computer bureau. This will enable the credit co-operative to upgrade their business efficiency at a modest cost, with the development cost shared by several parties. The second project aims to make the credit co-operatives more aware about their risk exposure to manage them better.

The Co-operative Movement will also intensify its activities to educate its employees and leaders about co-operatives values, principles and practices and to create greater awareness among its members, the general public and leaders in the community about the role of co-operatives in a modern society.



## KOREA

A backward step of the Korean economy will inevitably deteriorate the level of employment. The research institute foresees the unemployment rate is estimated at 5-6%. The effect of won dollar exchange rate depreciation will accelerate inflation. Domestic consumer prices are expected to soar up to near 10%. The foreign exchange rate will remain unstable until the second quarter of 1998. Thereafter it is expected to be stable at a level of 1,300 - 1,500 won to 1 dollar which was 807 won in 1996.

Agricultural cooperatives started to take measures to ease the situation in the farming sector. The measures mainly concentrated on reducing farming costs through adjustments of farming patterns and substituting imported inputs with domestic resources. The NACF summarized 100 items of cost saving areas from various types of farming collected from member co-operatives and drew up a financing plan to implement the plan titled "Cost-Saving Farming".

# INDONESIA

The economic crisis in Indonesia has given a very valuable lesson which may be able to help in the search for a workable cooperative paradigm, at least for Indonesia.

1. Development, which is focused on a group of big entrepreneurs and relying on foreign capital does not automatically create strong fundamentals. At the time of a crisis misery is brought mainly to people whose economy is weak. It appears that the policies adopted to overcome the crisis are directed to salvage the big class rather than to touch the interest of the vast number of little people.
2. Development which does not empower the people will not have a firm basis domestically and cannot serve either as a countervailing power toward outside capital. Consequently internal power is weak and unable to ward off any crisis which may arise.

Here co-operatives are to play an important role and to develop its paradigm, namely developing people's potential, strengthening their economic position and to making them a strong basis for development.



## **SRI LANKA**

Further strengthening of the SANASA to meet the challenges of the expanding open market forces has several facets. Among these are :

a) Financial strengthening : The financial strength of the majority as against monopolistic developments has to be met by facilitating access to capital. Further development of the SANASA Development Bank is envisaged. Branches will be established in all major cities.

b) Risk Management : SANASA has now stepped into insurance. The all Lanka Mutual Assurance Organization (ALMAO) established by SANASA is now providing insurance cover to all forms of risk associated with lending by our banks. With banking and insurance developed to sophisticated levels that can be equal to those already serving the capital market, the SANASA membership can look forward to borrowing and investment in an atmosphere more sympathetic to their needs.

c) Producer Consumer Linkage : Over the years, SANASA credit has been directly linked to production. SANASA target is not only production but producer consumer linkage. This will be achieved by a networking of our existing widespread organizations. The widespread presence of SANASA is harnessed for this purpose. Arrangements are being made to establish two district level centres for pooling of production units at local level and their work will be coordinated by a centre in Colombo which will arrange for delivery of produce to the consumers. Consumers not only in Colombo but other countries have been targeted.

- Information Based Development
- Human Resource Development
- Strengthening of Civil Society and Good Governance

## **From the Director General and the Development Director of ICA**

It will be of interest for you to know that the ICA Advisory Board, strongly recommended that ICA sharpens its focus of the development programme. This should of course be seen in the light of the very limited resources, at ICA's disposal. It is thus beneficial to produce a global policy, and not a strategy, since the differences between ICA regions are so vast. These differences will be reflected in the regional strategies.

Although co-operatives differ in terms of structure, function and performance as well as the conditions in which they operate in the various regions, there are some fundamental and common areas of concern to all co-operatives. This policy will identify and address these concerns.

Adjustment policies, economic liberalization and political democratization are creating a new environment for co-operative development. While these new conditions offer opportunities for growth, they also require adaptability, and increased efficiency and effectiveness on the part of co-operatives if they are to survive in this highly competitive climate. The main focus of the policy is on this issue.

## ICA

“There is a need to identify value-added roles which co-operatives both within and outside the region can play in challenging the distributional outcomes of the marketplace, and urging government to put in place policies and development resources that will facilitate greater equality for co-operatives in the marketplace.

To this end, CIDA, DID and CCA, in collaboration with ICA-ROAP, are carrying out an in-depth study of Asian and Canadian co-operatives, which will serve to define a global strategy for CIDA supported programs in the Asian co-operative sector, and to demonstrate clearly, the specific role played by co-operatives in these increasingly interactive economies.”

There is need to “talk up—and to distinguish—valid people-based co-operatives in the market place. This will :

- help to clear up misconceptions currently held in private and public sector concerning what co-ops are all about;
- bring discussions about economic development options—such as micro finance and micro enterprise—into the co-operative domain where there is indeed a natural fit; and,
- clarify and help current and potential stakeholders understand the important role co-operatives can play in challenging the distributional outcomes of the market and urge for greater equality in the marketplace

## From the Discussion Paper Prepared by the Regional Director, ICA ROAP

While micro finance and micro-enterprise should have fallen more logically under the co-operative domain, our co-operative system has been almost completely ignored or miscalculated by those agencies promoting micro interventions, due to the overriding “image” that co-operatives – especially in developing countries – are state controlled enterprises.

There is an urgency for ICA ROAP to increase its efforts to review in earnest successful co-op entities that are genuinely people-based and viable, and those which have become fully self-reliant following their transformation from hitherto government sponsorships. This Consortium could help set important parameters for identifying these successful, self-reliant co-operatives.

Relative to the Development Goal, Six Key Areas (KRAs) were identified:

1. Policy Development and Legislation
2. Leadership and Value-Based Professional Management
3. Trade and Business Development
4. Women Empowerment and Gender Main streaming
5. Food Security and the Environment
6. Consumers Co-operative Development
7. Other Development Partner’s Priorities which support or complement above KRA’s.

# Dynamics of Co-operative Development

by Dr. Ian MacPherson

I want to talk about some reflections on the principles, the identity and its complexities for half an hour, but I hope that I can be fairly simple with it.

When a number of us, including Hans, undertook a review of the principles, and tried to understand the values, and the way in which the movement was developing around the world, we found out, in so many ways, how subtle, and how complex, and indeed, how wonderful, the co-operative movement is. And perhaps, one of the things that we don't do enough, is to appreciate the complexity and the intricacy of those organizations. Perhaps, because we live in them so much. And we tend to want to reduce them to rather simple things, and in some ways, we always have to do that. We must reduce co-operatives to simple ideas, in order to find as to what it is that we want to do, and how we want to do it. But we should never lose sight of the complexity.

Recently, I have been writing about credit unions around the world. It's a rather interesting task. In the wake of that, and what we saw in the context of the Principles, I have come up with a way of thinking about them, and the context for how we might consider the ways in which we apply the principles and the values.

I think of it as the dynamics of co-operative organizations. It isn't a finished concept. It's unfolding as it were. I hope that I can get some feedback afterwards from any of you. I would appreciate it very much. Criticisms are always welcome.

## Spheres :

One way of thinking about these organizations is to think about the spheres within which they function. I have come to think that co-operatives function in four main spheres. And you have to think about all four. And if you don't pay attention to them adequately, there is probably going to be some mistakes. And the mistakes would have been made because the spheres have not been given due attention.

*Members* – The Identity Statement, in some ways quite subtly put membership first. If you look at the way in which the principles are worded, the structure of the document itself, there is a lot of emphasis on membership. That, despite the fact, that in many parts of the world, we have not treated our members very well, for all kinds of reasons. But members are at the heart of the Identity Statement. And they should be at the heart of what we do, how we associate with them, how we serve them, how we listen to them. They are very central to our whole reason for being.



And membership is not a simple concept again. And how we deal with members, and how we magnify our relationships with members is one of the great challenges that we have. So a very important, primary sphere of activity is members.

*Structure* – The relationships we have with our structures is extremely important. And I think the structure is essentially two main areas. The structure we have with our fellow co-op organizations, and how we work out that relationship, and how we build on it, and use it, pay attention to it is very important. I also include under structure, the whole issue of government, because we live within structures, imposed by government.

The Identity Statement correctly made the point that we are autonomous organizations. Does it mean that we no longer deal with governments? That is silly. We live in a world in which governments are always important. And we have to be concerned about legislation. We have to be concerned about government policy. We have to be concerned about the way governments are managing our society. And we have to make our voices heard. So structure is a very, very significant part.

*Community* – This is sometimes thought of as a new principle. It isn't a new principle at all. It is a restatement of what had always been, and what should be very significant. It is the social dimension of co-operatives. And I am so pleased and proud, of the way in which, so many movements around the world have taken this one to heart, and have started to rethink their relationships to the community, and what exactly that means.

*Management* – There are two dimensions of management. There is one in which we must always focus, and it's extremely important. And that is the one in which we strive to make efficient, effective organizations. That is an obligation we owe to our members. It's the best way we can guarantee the future of our organizations.

There is another dimension to management. This is one that has been rather badly looked after in many co-operative movements around the world. And that is the notion of management that brings these all together. And management within a co-operative refers, in my mind, to people who are employed as such. But there are subtle ways in which directors and members are also engaged in the management of their co-operatives.

And so I would put those four spheres as being the ones in which we all work. They define in many ways what co-operative entrepreneurship is. Because it is how we deal in all those four spheres that determines whether or not we are going to be successful.

I would argue too, that in developing our approach to those four spheres, the principles and the values are good guidelines.

The word guidelines is a double-edged one. Those principles are not arbitrary statements. They are not measurements. They are enabling. They are empowering. They point to the right direction. But if you look at each one, they would put pressure on you as a person, and on your organization, to address each of those spheres. And they will give you some suggestions as how you deal with members, how you deal with structure, how management should function and what we do in our community. They are not some finite and perfect statements, or form of judgement.

You may or may not agree that those are the spheres of activities within which co-operatives work.

### **Perspective:**

What determines how we approach those spheres aside from the values and the principles, are essentially perspectives. We tend to bring these perspectives to our co-operatives, which would help to shape and to influence the way in which we use the principles and the values and spheres.

*Movement* – Maybe not as strong as the other two, but nevertheless important. I don't believe, we have yet a good understanding of what a co-operative movement really represents. There is so much yet to be done. In a sense, it is a universal movement. And one of the common errors is to think that it is European and then applied somewhere else, almost in the wake of empire. I don't think that is totally true. But aspects of that may be true. In other words, there are co-operative institutions and traditions that are basic to any society.

But the movement did start in a structured, organized way in Europe. It was a daughter of the Enlightenment and of the changes that grew in the nineteenth century. It carries most of those elements that came out of that time. But there is an interesting problem about such a movement in a western society, because there are patterns of thought in those societies that are not particularly applicable to what co-operatives are all about. The patterns of thought that came out of the eighteenth century was binary. Things were either true or false. The answers were yes or no. There was a search for a kind of universal laws that dominated that kind of thought. There were ideological systems that emerged out of western thought, that were in many ways not friendly to co-operative thought. And so, co-operativism has had a hard time in western thought., and that is not something to be dismissed quickly. And then it was buffeted first by the management structures that we borrowed from the armies in the late nineteenth century. Then it was buffeted by the way in which it was used by the northern empires, which sought to impose co-operatives in the south.

One reason why governments play the role they do in the co-operatives of southern countries is that they unconsciously inherited some of those traditions. The universal British registrar was not particularly beneficial.



I won't even get into post-modernism in western thought, and the kind of thinking that has characterized so much of the north. It too was not particularly beneficial. In fact, it may be, that the essential co-operative message is more clearly understood in other societies, in other patterns of thought. So movement, nevertheless, is a way of understanding. And it does have its imperatives. Those who belong to the movement will be much influenced in how they think of that sphere. I do not however believe that those are the most prominent or the most common kind of co-operators.

*Situational* – The perspective that people tend to bring come from the situation in which the co-operatives emerged. I am Scottish, Canadian. Co-operatives that emerged in my part of the world, among my people, reflected that, more than anything else. And they reflected the circumstances and the situation, in which the people I know and I belong to, existed.

In co-operatives we're shaped by that and continue to be so. In fact it's one of the most fascinating thing about co-operatives. Wherever you go in the world, they are such wonderful barometers and insights into their societies.

The situational imperatives are very powerful. The situations will then shape again and influence how people think of the principles, how they think of the values, and how they want to conduct themselves in those spheres.

*Adaptable* – There is another approach, commonly found in the United States, and that is the notion that co-operatives are adaptable organizational forms without a great deal of ideological or philosophical content. If it makes sense for us to do it, we'll do it. There are a lot of co-operatives like that. That too will decide how you think of members. You will probably suggest something about community, if you come from that background. But you will probably have a limited concern about your community.

### **Cultures :**

It occurs to me that co-operatives have different cultures. Co-operatives tend to demonstrate three kinds of cultures. That applies to whatever perspective you come from. And the kind of culture you have will greatly shape how you think of the spheres.

*Populist* – Populism means an approach to organizational behavior, to politics, in which you emphasize democracy, participation, direct involvement, limited use of professionals. Those kinds of co-operatives are everywhere. They have a deep commitment usually, if they're functioning well, to membership, a limited use, sometimes even a limited respect, for management. Their notion of structure will mean that they will want organizations that will help them to do minimal set of tasks. Typically, it's education. Typically, it's a bit of government representation.

Populist organizations will often have a deep tie to communities, because

these are neighbours and friends, working together within a specific geographic context. So a populist culture, which is a vibrant culture, may be very attractive to you. They have a lot of virtues. It doesn't mean there aren't management issues with populist co-operatives. It doesn't mean there are no managers. But the dominant force is the volunteer.

**Managerial** – This is a rather complex one that exists on several different levels. But it is a co-operative in which the initiative and the drive comes from management.

Sometimes, when mistakes are made, they will naturally place their emphasis on management issues, and particularly, that dimension of management which looks at efficiency, accounting, marketing, labor relations, but not necessarily, and in fact rarely, at the overall.

They will tend to look a little more critically at members, and maybe want to simply use them as customers and sometimes to manipulate them. And their structures will be very much driven by managerial concerns. Their sense of community will be a marketer's sense of community. And it's not bad. But that's the characteristic.

**Structural** – This is the co-operative in which the preoccupation is what is the appropriate grand structure. Agricultural co-operatives, typically, have to now be concerned not only about their kind of local markets, but of big markets. They have to think quickly and internationally. So their concern is how to re-structure themselves that they can reach out to many different parts of the world. Financial co-operatives are also often that way, where the big structural issues start to dominate.

### **Stages:**

Co-ops go through three stages:

*Formative* – When I thought about credit unions, there is a formative stage. In this stage, they had a populist culture. They had a movement or situational perspective. The spheres were ultimately developed to meet the needs of formative credit unions. I think it holds in other types of co-operatives. Maybe another way of looking at it is as the pioneer stage.

*National* – The interesting issue is where you draw it off when suddenly you say that you are in the national stage. But I think what's important is when a national movement is not just a servant but when it is a driver, and when the national perspective, finally has power, and it has influence. And it is forcing change.

That is a stage that is not easily met in a co-operative movement, because of our emphasis on local control and autonomy. But when that happens, it becomes a national phase.

I think that there are relatively few movements around the world that have reached that stage, because characteristically, co-operatives at the local level will keep the national organizations under pretty tight control. But there is a time when it becomes important that the national organization will have some clout.

*International* – This is the stage into which we are going. It's not easy because it means transitions, re-thinking spheres, re-organizing, deepening our perspectives, and transforming our cultures, in which we genuinely think of ourselves in international terms and think strategically from an international standpoint. Some parts of our movements are doing that now.

I hope that the dynamics will be useful to you. What I found fascinating, when I did my scribbling on credit unions, was to try to put movements, including the one into which I belong, into that context. When you do that, what is fascinating is that each sphere, perspective, culture, stage, and relationship has its own typical problems and solutions. I would like to write some of that.

I hope that it has not been too hard to digest. I was excited by this as a way to understand. I found it very useful. I hope it will do the same for you.

# **Translation of New Co-op Principles to Legal Norms**

by Dr. Hans Munkner

## **Clarifying the Meaning of Technical Terms**

Legal norms are rules set by people for the behaviour of people among themselves. They set out what to do and what not to do. Such norms are based on general ideas in which people believe, which influence their way of thinking and acting. One precondition for the effectiveness of legal norms, especially of those based on new concepts, is that these rules must be understood, accepted and applied by people. In many countries, knowledge of the law constitutes a major problem.

Where laws are used as development tools by the state, it is not sufficient to make new legal rules. Effects can only be expected if an agency is created, to make the new rules known and to implement them, even against the resistance of those whose rights are affected by the reform. For many decades it has been believed that only government agencies could help to implement new legal norms (public law approach).

A better approach to using legal norms as instruments for development is to empower the citizens, to inform them of their new rights and to encourage them to claim and defend such rights (private law approach). This can only be brought about by information and life-long education, being one of the co-operative principles. It furthermore requires that people unite to fight for their right, that they form associations, federations, pressure groups and co-operatives to exercise legitimate power according to the proverb that "one finger cannot make a fist."

## **Co-operative Principles**

The new statement of the ICA on the co-operative identity is composed of three elements:

- \* A definition of the term "co-operative society" to overcome confusion and misconceptions about this form of organisation and to state in clear terms that co-operatives are autonomous, private, user-driven and user-controlled enterprises based on self-help and self-responsibility of their members.
- \* A statement of the basic co-operative values, underlying co-operative activities and defining their unique character.
- \* A list of 7 co-operative principles which serve as guidelines for those who want to put co-operative ideas and values into practice.

With its new identity statement, the ICA has tried to give a clear answer to the questions of why do people co-operate and how can they co-operate best?

The identity statement of the ICA presents a combination of general ideas or moral/ethic norms which are usually accepted by people who wish to co-operate as being valid, just and reasonable. Self-help, self-management, self-reliance and self-responsibility on the basis of equality of members as human being are combined with solidarity and mutual assistance which is usually extended to members only but could also be extended to all persons living in the community. By restricting solidarity to members only, defining membership criteria (common bond) and practising the principle of open membership, all persons who meet the requirements for membership and who agree to accept the responsibilities of membership have the chance to co-operate.

By including another value of social responsibility and caring for others, co-operatives find their place between egoism (group egoism) and altruism. However, experience has shown that in the long run, altruism alone is not a stable basis for co-operative work. Unless the members find their interests promoted with priority, their willingness to co-operate and make contributions to the common cause will decrease and finally disappear.

As any workable concept of human endeavour the concept of co-operation has to respect the power of the state, the power of capital and the weakness the human being. However, with regard to the power of capital, co-operatives follow their own rules. Co-operatives were initially formed as a means of workers to escape from exploitation by capitalists. This birthmark still determines the attitude of co-operatives vis-à-vis capital. According to co-operative philosophy, in co-operatives the role of capital must be limited. Capital is deprived of its power over people, capital shall serve rather than govern. Therefore, capital neither serves as a measurement for voting rights (one member - one vote) nor for profit distribution (patronage refund). As a concession to the power of capital, share contributions are usually rewarded by dividend, however, the principle remains "limited return on capital".

How can these general ideas and the principles derived from them be translated to legal norms?

The ICA being a world-wide movement has to find a definition of its value base which is universally accepted. After the approval of the new statement on co-operative identity at the ICA Centennial Congress in Manchester in 1995, following five years of intensive world-wide debate, the common value base and the typically co-operative structure appear to be uncontested among the member organisations of the world co-operative movement.

Co-operatives are now universally accepted to be autonomous, private self-help organisations, in which owners, decision-makers and users are the same persons (principle of identity).

This means that practices dating back to colonial times and to socialist economic systems, when co-operatives depended on government subsidies and were used as instruments for the implementation of government programmes are identified as detrimental (Laidlaw: Government money is the kiss of death to co-operatives).

### **Co-operative Law or Law for Co-operatives**

In the famous recommendation of the International Labour Office (ILO) concerning the role of co-operatives in the economic and social development of the developing countries (Recommendation No. 127 of 1966, para 10(a)) it was stated that governments should “detect and eliminate provisions contained in laws and regulations which may have the effect of unduly restricting the development of co-operatives through discrimination” e.g. in regard to taxation, allocation of licenses and quotas, and failure to take account of the special character of co-operatives and their particular rules of operation and to avoid inclusion of such provisions in future laws and regulations.

The purpose of a co-operative law is among other things to distinguish co-operatives from other forms of organisation. This can be done best by stressing particular features of co-operatives which give them a strong profile, e.g. that co-operatives pursue the goal of promoting the interests of their members, do business only or mainly with their members, distribute surplus in proportion to business done by the member with the co-operative enterprise.

Furthermore, a good co-operative law should encourage what is in line with co-operative principles (for long term success) and discourage or prohibit what is contradicting the co-operative principles (to avoid known mistakes), e. g., co-operatives should not be forced to use their funds for tasks imposed upon them by government or to deal with non-members. Rules influencing the work of co-operatives or governing co-operatives can be found in several official documents.

### **Laws and Regulations**

Provisions influencing the work of co-operatives are mainly to be found in co-operative law but also in other laws like labour law, competition law and tax law.

According to para 10 of the ILO Recommendation 127 of 1966, existing co-operatives should be consulted during the law-making process and should be associated with the formulation and application of co-operative development policy (paras 4, 5 and 7).

Another question is, how detailed should a co-operative law be? It may be better to have a comprehensive law containing all crucial matters like the focus on members, the protection of members rights and the definition of members

obligations, the protection of members against wrong-doings of unscrupulous board members and the definition of the responsibilities of office-bearers.

The new co-operative principles of the ICA recognise co-operatives as autonomous and independent organisations, which translated to legal norms would mean that they are recognised as legal entities in their own right. This means furthermore that co-operatives should have autonomy to make their own by-laws rather than being forced to accept model by-laws.

Another requirement for implementing these co-operative principles in practice is that the law and regulations must not be so detailed that no room is left for self-regulation.

The best way to respect co-operative autonomy in the field of by-laws would be to provide the necessary know how in a manual "How to make by-laws." This would pass on the necessary expert knowledge to co-operators, an educational effect that distribution of model by-laws would not have.

The new co-op principle of autonomy and independence defines co-operatives as possible development partners, however it is now stressed, that such collaboration, for instance between government and co-operatives, has to be on mutually agreed terms and without effect on the independence of the co-operatives.

This excludes former practices of using co-operatives as development tools and conduits for soft loans and technical aid, which undermine the self-help character of co-operative societies and make them dependent on external funding.

### **Tax treatment of co-operatives**

Where all registered co-operatives are offered tax exemption, such measure does not promote co-operatives but encourages clever business men/women to form bogus co-operatives in order to qualify for tax privileges.

It would be appropriate to grant tax concessions to new genuine co-operatives during the start-up phase and to devise a tax treatment of co-operatives that takes their special character into account. This shows the importance of defining what a "genuine" co-operative is and the need for co-operatives to have a clear profile.

According to the co-operative principles of the ICA, criteria of such definition should be the following:

- Is business done with members only or also with non-members?
- Is surplus distributed in proportion to business done by the member with his/her co-operative?
- Are all office-bearers elected democratically from among the members?
- Are the reserves indivisible?



Failure to show a clear co-operative profile would exclude tax treatment as a genuine co-operative.

### **Movement Structure**

The structure of the co-operative movement of a country should not be a matter to be legislated but should be left to the co-operatives to decide for themselves. This refers to the question of whether there should be one national apex organisation only or more than one.

According to the ICA statement on co-operative identity, co-operatives are autonomous self-help organisations based on voluntary co-operation. To implement this principle it would be sufficient to prescribe in the law that co-operatives have the right to federate and to leave all other moves to the co-operatives who would also have to bear the cost of all secondary and tertiary structures they wish and can afford to establish. Article 23 (2) (iii) of the Code refers to the possibility of having more than one apex organisation.

### **Conclusion**

The new statement of the ICA on Co-operative Identity makes possible what for a long time has been very difficult. As long as co-operatives were left undefined and it was avoided to identify co-operatives as autonomous, user-driven and user-controlled private self-help organisations, it was difficult to criticise law-makers and policy-makers for not respecting features of co-operatives which were left in the dark.

After the Manchester congress it is now possible to translate a clear concept into clear rules and legal norms.

Law-makers who want to improve their national co-operative legislation can now do so by placing emphasis on characteristics of co-operative which sharpen their profile and which stress their uniqueness as a special form of doing business and working together.

The law-makers should keep in mind that co-operative law is made for co-operators and not for lawyers and accordingly should be written in simple language that ordinary people can understand. If the laws governing co-operatives are too complicated and too rigid, they will remain "law on the books" and people will find their ways around them.

Co-operative law will only serve its purpose, namely to encourage good co-operative practice and to discourage risky and dangerous activities, if it becomes a "law in action." To achieve this goal, the co-operators must be associated with the development of the legal norms governing their co-operatives, they must understand the norms of the law and must accept them as reasonable, just, equitable and fair.

Finally, a word of warning not to overemphasise the importance of co-operative law for co-operative development. Even the best co-operative law is no guarantee for co-operative success. Denmark is a country known for its powerful co-operative movement, but Denmark does not have a co-operative law. The success of co-operatives depends, in the first place, on the quality, devotion and discipline of the co-operators and their leaders. A good co-operative legislation can facilitate co-operative development but cannot replace the personal efforts of those who wish to co-operate.

A bad co-operative legislation can impede co-operative development and frustrate co-operators and their leaders. It can burden co-operatives with so many administrative, political, financial and fiscal obligations that people lose interest in co-operatives and look for alternative ways to solve their common problems.

# **Value-Based Professional Management in Co-ops**

by Dr. Peter Davis

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Let me first of all start by saying that it is a tremendous privilege to come here and address you. It's been really exciting, listening to the many presentations, that has going on in the Think Tank for the past couple of days, from some really wonderful people, who are trying to take their co-operative movements forward in, let's face it, really difficult times.

And having just listened to Ian MacPherson, I must congratulate him on covering such a complex area so well, so clearly, and in such a brief period of time. But I would just like to make one point in response to what he was saying about Europe, and the Enlightenment, and the foundation of the co-operative movement.

Of course it is true, that we can always look at and see our differences. But at the outset, I would like to emphasize the similarities. What we shouldn't forget here is that those people in Germany, and particularly of my own people, the Rochdale Pioneers, in England, were people who knew what hunger was. They knew what it was to be without a job, not to own any property, to be at the beck and call of others, to be defenseless against market forces, that tore down their occupations, ripped out their communities, and destroyed their lives. And I think, in that aspect, the experience of the European working class, in founding co-operatives in the nineteenth century, mirrors very clearly the experience of the working peoples of Latin America, Southeast Asia, and Africa, today.

When I had the privilege to be in Namibia, last year, I can't think of a country or region more different to the one that I come from, in England. But I went up to the north of Namibia to a farmers co-operative. And it was a very moving experience for me, because I went to this desolate, poverty-stricken place, into this one little store, that represented the Northern Namibian Farmers Co-op. And I have to tell you, that I didn't feel a stranger there. I felt an immediate sense of recognition. And I couldn't quite understand why, at first.

I stood in this one room, looking around me. And I thought, what is it that makes this scene familiar? And I realized, it was identical, in its structure, in its content, to the very first store that those early Rochdale pioneers established. That miserable little shop, with its few bags of flour in the corner, hardly any commodities to sell. That was the starting place for the British Co-operative Movement.

So I think that we have a lot in common. And that today, of course, although we may be from different perspectives, with different histories and cultures, we are all facing a global market, which is threatening our people in many respects. We shouldn't forget, that the co-operative movement was not founded by the state. It was not founded by well-meaning people from above. It was founded and made to work by people at the bottom, not by the big names, but by ordinary working people. And it was founded in response to the market economy.

Anybody who tells you that because we have now moved to a market economy, that we are now deregulated, that we are now entering into a transition, that there is now no need for a co-operative movement, couldn't be more wrong, because it's precisely in a laissez faire free market economy, that we need co-operative organizations, to defend our people, and to put right the many injustices and failings that come from a free market economy.

So let's be clear that the destiny of the co-operative movement into the twenty-first century is absolutely assured, on the basis of need. And that the global market economy is something that we all have to address, whether we are from the relative privilege and well-being of the west or from desperate parts of the world. We still have the same issues to confront.

And let me also say that Britain didn't become an affluent, liberal democracy, by accident or because of an enlightened ruling class. If you go back a hundred years, my country had no democracy whatsoever. We had no one-person-one-vote. We didn't have a consumer society and mass affluence. We didn't have a welfare state. These things were established through the democratic organizations of labor, that forced the British ruling class to establish a liberal democracy. It was as late as 1921, when Britain, the so-called mother of parliament, had one-person-one-vote.

And let me just say for the record, there is a lot of angst in the west, about child labor in India. But my grandfather was a child laborer. He was in a factory at eight years of age. My grandmother lost three fingers in a cotton mill when she was just thirteen years of age. We had child labor, almost within living memory, in the United Kingdom. And I represent the very first generation of English working class children to be born without endemic rickets. And I was born in 1947.

So, you know, we are not so far in advance of the so-called third world today. Within living memory, our people have suffered, and let me say, if we are not vigilant, they will suffer greatly again, because those who don't learn the lessons of history, are forced to live it. We need a co-operative management and leadership that recognises this and whose vision for the future is built on this appreciation of our past and present.

My topic is Practicing Co-operative Management for Co-operative Development. And I am therefore focusing very much on the management sphere, that

Ian brought to your attention there in his general overview of the dynamics of the co-operative movement. I want to focus upon some modern management techniques like quality management. However it is Quality linked to Mutuality that I want to emphasize.

I also want to suggest that its this approach that must form the basis for much of the re-engineering that we must achieve within co-operative structures and processes today if we are to respond effectively to the new market conditions. This may sound like a lot of jargon. But it's not. One of the things that I want to suggest is that co-operatives can utilize some of these latest management techniques, more effectively than private sector companies can. That the co-operative ownership basis, and indeed this very central value within the whole co-operative identity, this value of mutuality, makes the co-operative, in value terms, in organizational terms, in ownership structure terms, very well placed, to utilize, some of the latest management ideas. So we shouldn't be turning our back because the ideas come from the Harvard Business School. Because we are better placed than many of the private company competitors to utilize these ideas. And these ideas, will help us in the market context, to turn the market in our direction, to ensure that we can operate effectively in that market, that we can grow and respond, and be competitive, and provide social justice for our people, which is the bottom line of what the co-operative is there for.

If I have any criticism of the current Identity Statement - which is a tremendous document that takes the co-operative movement much farther forward than it was previously - it is that it spends a little bit too much of its focus on process, and not enough focus on purpose. And I think that we need to be clear on what our co-operative purpose is.

Our co-operative purpose, I would argue, in a market context, is to provide that market leverage, that our members cannot achieve individually, whether they are individual workers, farmers, consumers of housing, or financial services. We need that market leverage. We need that ability to gather together the poor and dispossessed, who through their incremental investments, employment, trade, and production are able to acquire and grow some truly massive and successful, modern organizations that we see in the world. Those organizations came from very, very small and humble beginnings. And that should give us all enormous pride and courage, that when we start from our own efforts, we can do it.

The reality of the market economy is that we are going to have to grow faster. It means we are going to have to restructure. That's really why I have this question of re-engineering. I believe, as we move more and more, to confront the global economy, we are going to have to confront the question of economies of scale in our movement. And what co-operative development is probably going to mean is fewer co-ops, not more. Those fewer co-ops are going to be bigger. Maybe they are going to be - as Ian has indicated, and I certainly agree with him

- trans-national, certainly regional and maybe global. Already, there are moves in that direction. Partnerships are being formed.

These collaborative partnerships, within the sectors of the co-operative movement, face up to the fact, that if we are going to compete, with businesses that have huge multinational markets, it stands to reason, that when they come into a national market, and are competing with us, on a national basis, they will have economies of scale, that will make us look uncompetitive.

We do have however some tremendous advantages that can meet these challenges once we recognise how to use some of the latest management strategies.

In order to approach this subject I need to discuss six questions. First of all, I want to talk about the evolution of quality management. I want to use quality management as one of the examples of a modern management technique that actually the co-operatives can use much better than our rivals.

Secondly, I want to explain why quality management had a limited impact, when its been operated by the private sector. Why in fact quality management has not lived up to expectations in every respect. And then, third, why I think co-ops can do it better. Fourthly, I must address the issue of why co-operative reality has not lived up to its potential. What has gone wrong with our movement in many respects. And how we can learn from our mistakes. This brings me to the fifth point which is the development of co-operative management, because I would point to the failures of co-operative management as the root cause of co-operative failure. The sixth and final point is what differentiates a co-operative manager what is it that lies at the heart of developing co-operative managers.

There's no doubt that as co-ops grow, and as they become more significant businesses, professional management increasingly takes hold of the helm. We have to look at what that means for protecting co-operative purpose, for defending co-operative identity, as well as for developing co-op businesses, because it is at that critical point, when we are actually being successful, that we tend to fail. We fail in the sense that we become just another big business, or we fail because our boards are not able to control corrupt managers. I regret to say that I have the experience of senior executives going to jail in the United Kingdom.

Corruption is not something that just happens elsewhere. It happens everywhere. Wherever human being are. Where people can exert power, without ideals, principles, and proper controls. But it is not just a question of corruption. It is also a question of effectiveness. The trouble is, a lot of the professional management that we have hired in the past, and continue to do so as our businesses grow, are not trained as co-operative managers.

They are trained on an ideology based on a modern MBA program, on capital based organizations. What happens is - and we have seen this if I can talk of my country's experience in the building society sector, a membership based sector

- management after management has sold out their building societies to banks. And there is absolutely no long term or middle term commercial advantage to the membership. In doing that, they have used the lowest common denominator of bribery. We have to confront this issue. But we can't do so by going back. I don't believe that we can expect lay boards, to manage multi-billion pound organizations effectively. We need to have professional management. And in that assumption lies the basis of all that I am going to say, and most of what I have been writing.

That assumption also suggests to me that if we are going to have a dependency on that kind of professionalism, then we better make sure that it is co-operative professionalism, and not another kind. We must address the issue of what it means to be a co-operative manager. What it is to have a co-operative management organizational culture. How it is that we are going to have the relationship between the co-operative management and the democratically elected governance of these co-operative societies.

So what I'm proposing is that there is a problem that we have to address. A co-operative development without management development is not going to be possible. That is an assumption that I hope everybody initially will agree with. What is different about a co-operative manager? I am not trying to say that co-operative management is something that happens in isolation from the actual technical requirements of the business.

If you are running a dairy business, a credit union, consumer society, or housing society, obviously there are certain technical issues about your market, about the processes, production and management that are related to the specific sector that you are operating in.

What I am saying is, that co-operative management has to provide a general managerial framework, which ensures managing within the technical disciplines of the industry or trade that you are in, while still providing a co-operative context, which is managing with a co-operative purpose, and relating to the democratic and value base of the co-operative movement. So when I come to the point of talking about what does a co-operative management do, I want you to bear in mind that I am not suggesting that that's all.

## **The Evolution of Quality Management**

Quality management has gone through a number of stages of evolution in management thinking. Starting with quality control, which is basically an engineering based standard.

The idea of quality control was that you had a product, it met certain key engineering specifications, when it came off the production line. Somebody checked it over and said that yes it met those specifications. However, if it didn't meet specifications, it was thrown back in and brought through the process again.



Quality assurance took that one step further, and said what we need to do is to manage the process that ensures that the standards are maintained, before the product comes off at the end of the production line. So it ensured that the whole process was geared to providing and maintaining that standard.

Total quality control was the third stage. Up to now, quality management has been in the field of scientific management, that sees management as measurement or has an engineering perspective of management standards.

With total quality control, the emphasis shifts somewhat. It doesn't ignore or go away from the engineering concept. It simply says that the whole of the employment of the organization, whether one is directly in production or in one of the service functions, are all committed to ensuring the improvement of standards and quality.

So total quality control was really a shift, from not simply emphasizing the engineering perspective, but to ensuring guaranteeing quality taking into context the organizational culture and human aspects of maintaining quality. Which meant that we were into more of the human relations theories of management.

Then we came to what really was a major paradigm shift in the way we thought about quality in management. Total quality management took the burden of determining the standards outside of the organization and management. Because what total quality management does, and this is something that I think is totally appropriate to membership based organizations, is to say it is not the organization or the engineers or the managers that determine the quality standard of our service or product. It is our customers that determine the quality standards. So we now go to a market led paradigm of what is quality management.

The latest stage in this evolution, world class manufacturing, recognises that in order to meet world class quality standards a partnership is required involving stakeholders beyond the staff and customers to include all suppliers right down that product / service supply chain. All stakeholders must be working together to ensure that standards and quality required by our customers, our market, and end users are met. It seems to me that that is a very progressive transition.

So my first point really is to say that modern management theory is actually moving very much more in the direction of the customer and service, which is what co-operatives are all about. The customer actually owns the co-operative. But even in situations like producer co-operatives or farmer co-ops providing services to farmers because of their mutual status, concern for community, ensures that the co-operative movement anyway, even when its customer is not its member, is much more transparent in its market dealings and relationships.

But the question remains if this is such a good idea, why has it not worked better? Why has it not been more successfully applied? Which bring me to my next point, why has its impact been limited?

The first point is that the private sector take a very one dimensional view of the customer. You see, I don't believe, this notion that the customer is king, particularly when I hear it from organizational structures that legally, have to put the shareholder first, not the customer. Management is there in a private share based company to put the shareholder first, not the customer.

Any company that is going to survive has to ensure a rate of return on its share price and capital investment, to keep its share price up, otherwise the share price starts to fall, predators come in, the company is bought, and the management is shown the door. So the point is, there must always be a conflict between the pressures on management to maintain expectations in their capital market, and the requirements of their consumer market. And when a choice has to be made, it is going to be made in terms of the capital market returns, not the customer, because otherwise that management is out of the job. This is not a problem for co-operatives with non-tradeable shares.

Another reason why the quality management perspective has been badly managed by private companies, is that the human dimension has not been very well managed within the organization.

You see, a lot of Harvard professors talk about stakeholder management. But one of the key stakeholders that they always tend to ignore are the workers. When they talk about stakeholders, they are usually talking about suppliers, contractors. The truth of the matter is that labor has always been a tricky partner in a modern business enterprise, precisely because of the profitable substitution of technology for labour. This does mean that there is a clear conflict of interest between the interests of the shareholder and labour, which management has to manage. Well, if you have a management that is committed by law to upholding the shareholders interests first, it's clear, that they can't always expect the loyalty and support of their staff.

But you see, if you want to maintain total quality management, commitment to your customer and standards of service, you must have your staff on board. They must be fully committed to you. So we need an organizational culture that can deliver on that.

But not only that, if you look at this so-called free market, what you find of course, is that it is not particularly free. Markets tend to be dominated. Very often, suppliers themselves are in a position of being exploited by the company that they are supplying. The main company can go to the market and take its pick of suppliers. And so often it can tie its suppliers to a very bad set of agreements. Now, that doesn't mean a lack of standards, because obviously, the suppliers want to try to maintain their profit. That means that they will cut corners somewhere.

So it's not surprising that this system, that is constantly trumpeted in the management press and literature isn't actually very effectively applied by the mainstream company.

## **Why Co-ops could do QM better than the private sector**

First, there is, the reduction in the conflict between customer and owner, in a co-operative situation. Second, when it comes to the consumer, if you look at private sector marketing and market research, what the company is really interested in, is what it needs to know about that customer, in order to sell its product to that customer. It's a very one dimensional view of the customer. It's based on the question what will it take to sell this product or service? But actually a co-operative can afford to look at the whole person, and remember that this isn't just a one dimensional person that buys services from us.

This is a person that is also a parent, a citizen, one who lives in an environment and cares about that environment. Therefore, when we market our products and present our services, we can look at the whole person. And we can actually provide real value added, by providing products and services that meet the needs of the whole person.

A good illustration of this, is to go to financial services and the British Co-operative Bank, which undertook the market research of its customers and identified their main concerns. Many of these concerns at first sight had nothing to do with financial services directly, but just what people were concerned about as people. But then the bank took those general concerns, and brought them back to its business, and said how can our business, which is a banking business, respond to these general points, while giving one hundred percent banking services. Not in substitution to good banking services, but in addition - providing additional value added. And that's when they realized, that by taking an ethical banking stand and saying, we will not invest money in the arms trade, in organizations that are known major polluters and destructors of the environment they were giving added value to customers. By taking the whole person perspectives, they started to make profits again, to attract more customers, and became really the first positive co-operative quality national brand image in the UK for the last thirty years.

So we don't have to be tied in with this one dimensional market view of the customer. That means that we can really, in terms of the definition of quality of our product, get into the very heart and soul of the needs of the individual consumer, in their communities. Because their community is our community, that's what we need to get to. This gives us another critical competitive edge.

Also, working on the basis of mutuality, our partnerships and trading relationships with other co-operatives or private sector businesses and our staff for that matter, can be better, more transparent, and more honest, which will also enable us to maintain the real standards of quality and service. Now all that is going to give us a major competitive advantage in the marketplace.

Last, but not least, we have our Co-operative Identity. One of the things that

has been presented very much over this Think Tank. has been the need to promote Co-operative Identity. And I couldn't agree more.

Because the more that people understand what the co-operative is, the more they are going to recognize our transparency and our honesty. Our Identity gives us our crucial brand differentiation in the marketplace. Its not an optional extra but central to our commercial success and organisational purpose.

The problem is can we live up to our own identity? This is why, in the UK, I suspect, so many co-ops have not followed the Co-operative Bank's example, have not set up their ethical programs, and have not pushed the Co-op Identity. Because if you are going to push the high standard of principles and values that the Co-operative Identity Statement represents, you better have the processes, quality and standards of organization to deliver on that promise and on that image. Otherwise, you have lost credibility.

### **Why Co-op Reality has not always lived up to its potential?**

And if we look at the co-operative movement, and why it has failed, I think, we can see a number of reasons. First, we have expected too much from our members. People do not join co-ops to vote and attend management meetings. They join co-ops to get services, benefits, social and economic protection, and justice. Now, many a times, we only offer, as a main means of involvement, the process of democracy or the process of attending meetings. And then we get very surprised, when people don't turn up. We don't have representative meetings.

Our democratic content is often a hollow shell. This may not have happened in your cultural context just yet. Many of you may come from small co-ops, where everybody knows everybody, and it is based on a small community.

But as soon as you start to get big, you are going to find it hard to manage and maintain your memberships, and mass involvement in that process. That, I promise you, will happen. And when it does, what you have to do is not do what the British did, which is just to carry on as if nothing had happened. What you have to do is to find other ways of engaging, mobilizing, and involving your members. Democracy is not simply turning up once a quarter and voting.

The Co-operative Bank - which has incidentally a PLC structure- has spent more time engaging its customers and finding out what its customers want, and responding to them, than nearly any of the so-called co-operative retail societies in Britain has done. So we have to look at finding new ways of engaging our members.

The second thing is that we expect too much from the ordinary lay members or volunteers, who sit on boards and are legally responsible for management decisions involving multi-millions or billions of dollars worth of business. Lay members cannot be expected to do that effectively, with the best will in the world. And that brings me to this very problematic position about management.

Co-operative management doesn't get nearly enough attention in this movement, and it hasn't done over the years. As a result we do not have an appropriate model of co-operative management. If you look at the various alternatives of models of co-operative management, that exist today, I can demonstrate quite clearly, why these models are inappropriate.

First of all there is the neutral scientist model. That model of management is really the mainstream view capital based organisations model but it is very influential in some co-operative circles. The idea is that management is not about values, or principles, because it has a market. And that market operates perfectly. It is a major clearing mechanism. All managers have to do is to follow the disciplines of the market, as good social scientist, and bingo, welfare is optimized.

But of course, we all know from the co-operative movement that that doesn't happen. If it did, we wouldn't need co-ops. The market doesn't operate like that. So that whole concept of management as being nothing more than a value-free exercise of scientific principles is just rubbish.

Then we have something that's quite familiar to many of you. That is the model of the manager as charismatic leader, father or mother figure of the co-operative. I could name examples of those in the UK. I'm sure that you could name charismatic leaders of your own. They are great people. They have vision and drive. They get us moving and make us do things. For that I am not against them. We need more. But as managers, they have a lot of very serious deficiencies.

Firstly, they don't take advice from anybody. They very rarely ask anybody else's opinion, which is why very often they get it very wrong. Not only that, but charismatic leaders are very, very bad at working in teams. And they are extraordinarily bad at selecting someone to take over. So charismatic leaders are not a model that we can go with.

Then we have what I think is the mainstream model of co-op management, which is the civil servant model. It says, we have the business on one side, and a social dimension on the other. Lay members run the social bit. The manager runs the day to day business bit. You the board are responsible for policy. But of course it's nonsense. It's nonsense, first of all because this person who is managing the day to day, of course is also directing the policy. Policies are not directed by boards. They are directed by chief executives.

I was at a meeting of the International Association of Co-operative Bankers in 1995, the year that the Identity Statement was being adopted. There I addressed them and said, would anybody here admit that when they went to their board meeting, with a proposal, they genuinely didn't know what the board was going to decide, before the board had even heard the options that would be pre-

sented. There was not a single chief executive who didn't know exactly what action his board was going to take.

To me, this idea of management as a professional civil service is a cancer that breeds cynicism and division in our movement. And it breeds corruption too.

A unified board of lay directors and professional managers would I believe have a number of advantages over the civil service model. Before I set down what I believe those advantages to be, however, I want to stress that it is the management and organisational culture that is generated that I think is the really decisive element in ensuring co-operative development and success.

A unified board will help to establish a unified culture rather than a them and us culture. It will help to make managers recognise they have responsibility for managing the whole co-operative enterprise not just the "business". Managers will have the added responsibility and authority that goes with being directly accountable to the whole membership rather than the elected board.

The co-option of the chief executive and two or three of the senior management team into a majority of lay board members will not prevent the majority from dismissing the manager if necessary. In fact Boards hardly ever do this in Britain where the civil service model is particularly entrenched.

There are a number of advantages in a unified board. First the board reflects the true position. Those creating policy are now legally responsible for their decisions. This has to be healthier than the present fiction. Second the structure recognises that the social and commercial are not separate strands in co-operative organisation but closely inter-related. For co-operatives to compete effectively and to differentiate themselves in the market effectively the social and commercial need integration.

Third, without that integration co-operative democracy will remain purely a matter of institutional accountability not real involvement in business decision-making. Such involvement will only increase and encourage participation in governance and make governance more transparent it will not be a substitute for governance as I suspect some people fear. Nor will such involvement be a hindrance to management because it will be the result of effective application of the latest professional management techniques to the development of the co-operative business.

Co-operative TQM managed by Co-op managers who understand that the membership base is a commercial advantage and a management tool will enable a genuine partnership of stakeholders that will deliver the competitive quality of service our members and customers require. With structural and governance reforms there must be cultural reforms.

We need to develop a Co-operative Management capable of leading us into the next millennium. A unified Co-operative board with the right co-operative

management will release the entrepreneurial drive that we need to respond to the challenges of the new global market.

### **Summing up**

First we must recognise that modern management in the context of membership based organisations can deliver a competitive advantage to co-operatives.

Second, we must develop managers to have the values, skills and knowledge to deliver these methodologies effectively.

Third, we must, by focusing on our customers and members as whole persons, recognise the social and environmental value added we can offer.

Fourth, we must establish real stakeholder partnerships committed to serve the members and customers on the basis not of short term exploitative commercial relations but on a recognition of mutuality of need at the heart of the relationship.

Fifth, we must have the courage to re-engineer our business processes and accept mergers and acquisitions when necessary to achieve the quality standards our members need.

Sixth, we must empower our managers as well as govern them. We need a new relationship that recognises the central importance of professional management in the effective development of co-operatives by installing them as leaders on the main boards of co-operatives.

Seventh, we must emphasize our Co-operative Identity in our marketing and public relations as well as in our involvement of all our stakeholders. We must manage our relationships on the basis of it and have the courage to live up to the standards of excellence it requires of us.

Eighth, real involvement of customers and members in quality issues will encourage a greater involvement in the governance of co-operatives and a greater appreciation by the membership of what it is they are part of and why.

## **Another Way to Manage Money\***

*Finance : With seven million members, the country's 4,900 savings cooperatives have escaped the fate of many bigger financial institutions during the recession. But there is room for improvement in the system*

**Soonruth Bunyamanee & Wicht Sirithaveeporn**

oes size matter? Not necessarily in retail financial services, says Kamol Hengkietisak, a lecturer at King Mongkut's Institute of Technology.

For more than 15 years, Mr Kamol has passed up local commercial banks in favour of his university's savings cooperative, which he says offers comparable returns, better services and generally higher convenience.

"When I applied for a home mortgage, my local bank said I needed to bring numerous documents and go through a multitude of steps. Interest on the loan was quoted at 15%" he said.

"But the cooperative I belong to quoted just 12%, with no hassles, complicated procedures or mortgage fees."

During the economic crash, savings cooperatives have shone compared with larger financial institutions. At the end of the first half, commercial banks had capital funds of 520 billion baht, net losses of 113 billion and non-performing loans of about 25% of total outstanding credit.

Savings cooperatives, in contrast, reported capital of 126 billion baht and net profits of 10 billion. Non-performing loans were 2% of outstanding credit, up from 0.94% at the end of last year. The economic crisis has caused many banks and finance companies to stop lending, leading to liquidity problems for the private sector. Savings cooperatives have partly helped ease the credit crunch. Total outstanding loans were estimated at 180 billion baht, primarily in the form of individual loans.

As many as seven billion people belong to 4,900 cooperatives nationwide. They control more than 200 billion baht in assets, versus 37 billion a decade ago, according to Sirichai Sakornratanakul, senior executive vice-president of the Industrial Finance Corporation of Thailand (IFCT). Savings cooperatives are a specific type of cooperative, authorised to accept deposits and make loans. Unlike banks and finance companies, savings cooperatives automatically withhold payment for loans or fees from members' salaries, explained Chakgree Sujarittum, director of non-agricultural cooperatives at the Cooperatives Promotion Department.

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\* This article appeared in the Bangkok Post dated 18th September, 1998, makes interesting reading. (Not part of the Consortium)



He acknowledged that some cooperatives were facing increased pressure in managing their finances, as layoffs and wage cuts in the labour force were increasing.

Others have encountered liquidity problems stemming from maturity mismatches between short-term deposits and long-term loans. Still, because the majority of savings cooperatives draw on membership fees and shares for capital, member deposits play a relatively small role as a funding source.

A more common reason why cooperatives encounter difficulty is poor investment strategy and portfolio management by managers, a problem compounded by weak regulation. For instance, regulators have found that deposits at some cooperatives were used for real-estate development, under the guise of constructing facilities for members – a loophole in the law. Such investments proved disastrous after the property market collapsed.

Mr. Chakgree said regulators at the Ministry of Agriculture and Cooperatives had warned since 1996 to duress and prepare and bankruptcies. had adopted more tices and reduced operatives or fi- Overall, Mr. ings cooperatives tively unaffected by

S a w a s d i man of the Federa- Credit Coopera- savings coopera- role in tackling the local level, and ward national self-

***“The system isn’t like capitalism, where the more privileged have the advantage over other. And it isn’t like socialism, where everyone receives the same benefits, ending up with no incentive for people to work. The cooperatives system is a middle path”***

savings cooperatives tighten lending proce- for increasing layoff’s Many cooperatives cautious lending prac- liabilities to other co- nancial institutions. Chakgree said, sav- had come off rela- the economic crisis.

Sangbangpla, Chair- tion of Savings and tives of Thailand, said tives played a valuable economic problems at supported efforts to- sufficiency.

“The system isn’t like capitalism, where the more privileged have the advantage over other. And it isn’t like socialism, where everyone receives the same benefits, ending up with no incentive for people to work,” he said. “The cooperatives system is a middle path, where one man has one vote. Not one share, one vote. Each member has an equal voice, no matter whether they have tens of millions o shares or just one share.”

Dr. Sawasdi, who manages a cooperative for Chulalongkorn University, agreed cooperatives were weathering the downturn much better than other financial institutions.

Out of a total loan book of 6.08 billion baht last year, the university cooperative had just 25,000 baht in bad and doubtful loans thanks to prudent lending practices, he said. Cooperatives typically gave loans of up to 80% of the value of land placed for collateral. Land valuations were based on benchmarks set by the Land Department five years ago, when prices were significantly lower than market values. As a result, credit risks were relatively low. But with land prices continuing to fall, Dr. Sawasdi said cooperatives would have to adjust lending and valuation methods to manage risks.

“The most important factor in credit analysis for cooperatives, no matter how much the loan, is whether the borrower has enough funds after payment to maintain his or her personal and family lifestyle,” he said.

Before the economic crisis, interest rate spreads for cooperatives were about two percentage points, versus four points for commercial banks. Dr. Sawasdi said cooperatives in general offered higher deposit rates and lower lending rates. But because the law requires cooperatives to set aside at least 10% of profits each year as reserves, funding costs were actually lower than interest rate spreads suggest.

Dr. Sawasdi said some larger cooperatives actually set aside to 30% of annual profits as reserves, which can be used for lending capital in subsequent years with no real cost. Even so, heavy competition for deposits by finance companies and banks over the past year has led to billions of baht being shifted out of the cooperative system.

The result has been a liquidity squeeze for several cooperatives, forcing them to borrow from other cooperatives or from the Federation. Some critics argue that the present cooperative system remained ill-prepared to face growing competition and challenges from liberalisation. Cooperatives proponents claim the system is stable because shares and loan payments are drawn directly from members’ salaries. But others say there was little guarantee against an institution failing, either from economic pressures or internal fraud.

Dr. Chayodom Sabhasri, an economist at Chulalongkorn University, said that while the basic principle of savings cooperatives was sound, their management quality and professionalism could be questioned. “I might be the only faculty lecturer in the whole university who isn’t a member of a cooperative,” he said. The cooperative at Chulalongkorn University was comparable in size to a small finance company and should be run by professional managers. Dr. Chayodom said. Development of cooperative services and products has also come too slowly to match market developments, with cooperatives burdened by too much bureaucracy, he added.

Another Chulalongkorn professor said the biggest problem of cooperatives system faced was poor services and questionable accounting and supervision standards.

"I don't believe that local cooperatives come under as strict scrutiny as financial institutions under the control of the Finance Ministry or Bank of Thailand," the lecturer said.

The Agriculture Ministry recently commissioned the IFCT to explore ways of improving cooperatives. Mr. Sirichai of the IFCT said that with more than 200 billion baht in assets, the savings cooperative system was about the same size as the Government Savings Bank and the Bank for Agriculture and Agricultural Cooperatives. But services and risk management techniques used by cooperatives remained underdeveloped.

One recommendation from the IFCT was to establish a cooperative bank to offer central financial facilities, and to help with financial management and supervisory services.

A cooperative bank could offer individual cooperatives lending and deposit services, discount promissory notes, guarantee and issue letters of credit for trade among cooperatives. A bank would have access to the money and equities markets, diversifying funding sources at lower cost and more efficiently than the present system. What a cooperative bank would not do is offer direct guarantees on deposits of cooperatives members because of the high credit risks and liability burden involved. Instead, the bank could help protect member deposits in two other ways. First was by participating in a deposit insurance fund, making annual contributions together with cooperatives.

A second alternative would involve a third-party guarantee for cooperative deposits. This could be from the deposit insurance agency the government plans to set up. The cooperative bank could be 49% held by the state, with the remainder held by cooperatives. Capital of about three billion baht would be sufficient for the bank to provide central financial facilities, while about five billion would be needed if full banking services were to be offered.

Each savings cooperative would voluntarily set its shareholding level in the bank, with a minimum holding of 10 shares at 50,000 baht each, up to a maximum of 0.5% of the bank's total capital. Cooperatives would have voting rights in setting bank policy, directors and management. Mr Sirichai said that the ultimate shareholders of the new bank would be the members of the participating cooperatives, a stark contrast from the banking system, which is dominated by a handful of the country's wealthiest business families.

"Local cooperatives are closer to their members and have a broader network than banks. A cooperative bank should be able to successfully compete in the retail banking market," he said.

As well, a cooperative bank would help significantly in developing and assisting the poorest segments of society, right at the community level, in line with a national policy of "state help for self help".



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