

member benefits
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education

Co-operative Membership

Issues and Challenges

BILL TURNER

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autonomy

participation



UNIVERSITY OF
SASKATCHEWAN

Centre for the Study
of Co-operatives

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Centre for the Study of Co-operatives
University of Saskatchewan

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Centre for the Study of Co-operatives

THE CENTRE FOR THE STUDY OF CO-OPERATIVES is an interdisciplinary teaching and research institution located on the University of Saskatchewan campus in Saskatoon. Contract partners in the co-operative sector include Credit Union Central of Saskatchewan, Federated Co-operatives Ltd., Concentra Financial, and The Co-operators. The centre is also supported by the Saskatchewan Ministry of Enterprise and Innovation and the University of Saskatchewan. The university not only houses our offices but provides in-kind contributions from a number of departments and units — Bioresource Policy, Business, and Economics, Management and Marketing, and Sociology, among others — as well as financial assistance with operations and non-salary expenditures. We acknowledge with gratitude the ongoing support of all our sponsoring organizations.

The objectives of the Centre are:

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- to undertake original research into co-operatives
- to publish co-operative research, both that of the Centre staff and of other researchers
- to maintain a resource centre of materials that support the Centre's teaching and research functions

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Introduction*

IN CANADA, people have enjoyed the freedom to choose to work together for their own mutual benefit. Over the years they have formed many different kinds of co-operatives in response to many different needs. In many cases, co-operatives have been extremely successful and have attained prominent positions among the myriad organizations and enterprises that comprise Canadian society and the economy. As the contemporary world order changes, however, established co-operatives and their members face new realities, and opportunities emerge for fresh approaches and for the formation of new co-operatives.

Co-operatives are formed to provide benefits to their members, and the measurement of their success can consequently be multidimensional. Unlike an investor-owned business, where the motive is to satisfy shareholders—the providers of capital—by maximizing returns to capital, a co-operative is challenged to satisfy its owners—the members—by providing tangible benefits to members in an economically sustainable manner that will maintain their loyalty to the co-operative. Those member benefits may take several forms and could include things such as patronage refunds, the provision of services otherwise not available to the membership or the community, the creation of employment opportunities, an investment in community infrastructure, or the improvement of members' incomes by moving up the market supply chain. The bottom line for the co-operative is that it must contribute to the enhancement of

* This paper was originally a chapter in a book titled *Co-operative Membership and Globalization: New Directions in Research and Practice* (Saskatoon: Centre for the Study of Co-operatives, 2004). It is reprinted with permission of the author.

its members' social and/or economic welfare, and it must do so in competition with other providers of goods and services.

Co-ops tend to form in times of change or adversity. They form when people see the need to challenge the status quo by developing innovative approaches that will enhance their welfare or fill a void in the market. Credit unions, for example, developed among farmers on the Prairies when the established banks and trust companies withdrew from the farm-credit market in response to the ravages of the Great Depression. In response to this reality and in desperate need of credit, a few brave souls dared to think that there was another way to do things and formed the first credit unions. Similar stories can be told about the formation of the wheat pools, the consumer co-operatives, and the dairy co-ops. Advancing technologies, changing rules in the market-place, new competitors, and evolving consumer preferences all cause change and create difficulties for people as they struggle to adapt to new realities. It is in these circumstances that people invent new approaches and where the opportunities for co-operation arise.

Adapting to Change

ADAPTATION TO CHANGE, however, can be a difficult task for co-operatives. It can be especially complicated for established co-operatives that have spent many years building an effective organization and infrastructure, and that have enjoyed operating in a stable environment for some time. When co-ops become comfortable with a set of market rules or regulations that define their scope of operations, it will be a challenge to adapt to rapid change that totally redefines the conditions under which they function. On the other hand, newly emerging organizations do not have the restrictions of a culture or infrastructure that was designed to operate under a set of conditions that are no longer applicable. They are free to design strategies and systems unencumbered by vestiges of the past.

Consider the example of the western Canadian grains industry. With declining margins for traditional cereal crops throughout the 1980s, farmers began to focus on producing more specialized, nontraditional crops that were marketed in a different manner from bulk cereal commodities. Even for traditional crops, demand emerged for specific product characteristics or qualities; wheat was no longer wheat, canola no longer canola. The global market-place was changing. Farmers were also seeking ways to alter the enterprise mix on their farms in order to diversify their revenue sources and reduce their dependence on grain production.

At the same time, advancing technologies strongly influenced farming methods on the Prairies, and the capital structure of farms changed dramatically. The requirement for operating capital and liquidity meant that farmers needed to turn over their crop production quickly to meet cash-flow requirements. They also had to expand their revenue base to justify the higher capital investment that now characterized the farm. The results were an increase in farm size, diversification of farm enterprises, and a lack of new entrants into the farming business.

With their operations changing in such fundamental ways, farm members of co-operatives required different services from their co-ops. If the co-op could not supply the growing need for operating credit, specialized farm inputs, customized services, marketing for specialized crops, and services for livestock enterprises, farmers would seek them elsewhere or form new organizations to meet their needs. Members were drifting away from their established grain-marketing co-operatives and were ahead of their organizations in adapting to changing conditions.

New co-operatives and other farmer-owned enterprises began to spring up across the Prairies. In Leroy, Saskatchewan, for example, farmers, the retail consumer co-operative, and the credit union worked together with a local hog farmer to form a New Generation Co-operative. Owned by the farmers, it was an innovative partnership approach to expanding the revenue base for the farmers and to offering the hog farmer a means to scale up his production. In the neighbouring town of Naicam, the local retail co-operative expanded its business to provide

farmers with customized services. In other communities across the Prairies, farmers banded together to build new grain-handling facilities in direct competition with the established grain-marketing co-ops.

Like their farmer members, the Prairie grain co-operatives were also facing changing times. Officials engaged in multilateral trade talks were negotiating the rules of the world and domestic grain market, eroding the ability of the large Prairie wheat pools to lobby for their own interests. New trade rules emerged from the final GATT (General Agreement on Tariffs and Trade) negotiations in the early 1990s, and the removal of the long-standing grain transportation subsidy (The Crow Rate) in 1995 occasioned the need for substantial investment to upgrade the outmoded grain-handling system. The competitive environment had changed dramatically. To compound things, the demographics of the farming community and thus the co-op membership were shifting noticeably as the average age of farmers continued to increase. The margins in the traditional grain-handling business could not produce net revenues that would finance reinvestment and equity payouts to retiring members.

What happened to the Prairie grain co-ops in these circumstances is well known and it raises some fundamental issues for co-operatives. One of the first that comes to mind is how can both members and their co-operative adapt to change without sacrificing the sustainability of one or the other? Should the member adapt to the institution or vice versa? What processes would engage the membership in a meaningful way that would harmonize the business strategies of the co-op in a timely manner with the needs of members? Are the forces of globalization so strong and pervasive that some co-operative structures cannot adapt? There are no easy answers here, and leaders attempting to lead change are often confronted with a dilemma. This is surely a fruitful area for investigation that could contribute greatly to the sustainability of co-operative organizations over the long run.

A look at the agenda of any board meeting of a larger, established co-op might be revealing. How much effort is put into understanding the events that are going to fundamentally influence the operations of the co-op? In response to such events, is the strategy one of adapting to the

new situation or of attempting to lobby for maintenance of the status quo? How much time is spent analysing or thinking about how decisions or events will impact the members? Particular attention needs to be paid to understanding how globalization and advancing technologies are affecting the co-op's membership as well as how they are changing the nature of the competitive market-place and everyday business operations. To understand how members are being affected is to understand how the co-op's primary market-place is changing, and this will help the co-operative to develop a strategy that maintains its identity and its linkage to the members.

Identity

CO-OPERATIVES ARE OFTEN THOUGHT OF as a collection of physical assets or as a building. If you ask people, "What is the co-op or credit union?" the response will usually indicate the service station or the grocery store or the grain elevator. People interact with the organization through its physical assets, which have given the co-op its identity in peoples' minds. You are less likely to get a response that describes the co-op or credit union as a group of people working together to provide themselves and their community with a bundle of services, or to intervene in the market-place with the objective of enhancing the welfare of the members.

Identity is often defined in terms of a local presence, but a co-op also takes on a broader community identity, and over time it becomes an integral part of the community to which its members are linked. When a co-op consolidates its services into larger units or withdraws services from communities, it faces the prospect of losing its community identity and the support of its members. This raises the question of where peoples' loyalty really lies. Is it with their community or with their co-op? In the case of co-operatives, can the two identities be separated?

Some people suggest that a decentralized service-delivery structure makes it easier to develop and maintain a local identity. Where there is a local identity, the co-op's services are delivered in close physical proximity to its members. While a local presence may contribute to a strong identity, it is not the only factor in moulding it. Mountain Equipment Co-op (MEC) has been successful in developing an identity even in communities where its physical facilities are absent. MEC commits to providing "ethically sourced" products at reasonable prices and "experience-based" advice that will maximize a person's outdoor experience. In addition, an integral part of MEC's strategy is "to protect and preserve the natural environment." This suggests that providing convenient access to the co-op's services and implying that supporting the co-op contributes to some "greater good" can be just as important to the organization's identity as the presence of physical facilities. Being environmentally responsible, supporting local ownership, buying Canadian, and sourcing goods from suppliers who adhere to ethical standards are all examples of contributing to the "greater good" that links to member values. And ATMs, tele-service operations, online services, and convenience stores can provide services in an accessible and timely manner that connect with member lifestyles.

Governance, Leadership, and Volunteerism

MEMBERSHIP RENEWAL is another issue that co-ops cannot ignore. The members who become involved in the active governance of their co-operative are relatively few in number. Many will be content to utilize the services of the co-op for their own benefit and will never consider assuming a leadership role in the organization. And due to the largely voluntary nature of co-operative governance, two situations tend to develop. In the first, a small group of committed members take on leadership positions and serve for long periods of time.

While the dedication of such individuals is admirable, the co-operative risks losing the advantage of having new ideas and perspectives brought forward from the broader membership. The second situation arises when no one person or group can undertake a leadership position for any length of time. As a result, there is a constant turnover in the leadership group and a lack of continuity in directing the co-operative.

Neither of the aforementioned situations is desirable, and the co-operative needs to devise strategies that will provide continuity and allow for the orderly succession of the leadership group. In addition, it must devote resources to developing and supporting individuals while they assume their co-operative responsibilities. Many co-ops have rules regarding the number of terms that an individual can serve on a board of directors and have well-developed approaches to recruiting new people to run for elected office.

This raises a fundamental issue: How do you maintain the co-op governance model and attract competent leaders from amongst the membership, while at the same time achieving the scale of operations necessary to sustain the business? This may mean rethinking the traditional centralized structure to which most enterprises migrate as they grow, and exploring innovative ways to link to or network with smaller, autonomous or semi-autonomous units to achieve scale and create efficiencies. This also implies a more decentralized management and governance structure, in which the major challenge becomes one of maintaining cohesion, sharing information, and gaining knowledge among the smaller units. It also requires a mindset that views the co-operative in a “bottom up” paradigm.

To compound the challenge, considerable responsibility is thrust upon the volunteer leadership as co-operatives become larger and more complex. Many of the recent difficulties in the corporate world have been attributed to inadequate oversight or governance. As a result, directors in general are being held to a higher standard of accountability and are expected to possess or acquire specific skills that will enhance their effectiveness. Exercising the responsibilities of leadership involves a significant time commitment, and it will become more difficult to recruit

people who can take time away from their careers to assume leadership positions in co-operatives. This is not such an issue in smaller, less complex co-ops, where the demands are not so great.

In the future, co-operatives will need to discover new and innovative ways of allowing their volunteer members to take on the challenges of leadership. New approaches to governance processes that utilize modern technology hold some promise but cannot be relied upon completely. The Internet, video-conferencing, and tele-conferencing all offer methods of involving members without taking them away from their home base for extended periods. The governance structure also needs to be examined to determine if there are ways to provide effective governance in smaller “chunks,” which would allow more members to participate and require fewer part-time or full-time leaders.

Member Education and Training

IN A MORE COMPLEX, interdependent, and competitive world, the key to co-operative success will rest with a well-educated and -trained membership. No longer can co-ops assume that they function in a small, insulated market, and it will be important for members—particularly those in leadership positions—to understand the complexities of the world around them. Co-operative education and research can contribute to this understanding in the following ways:

- An examination of innovative and successful approaches to organizing co-operative business and governance activities would greatly assist all co-operatives to develop new approaches. Useful models to consider include practical examples of functional networked or federative structures that link smaller units to gain efficiencies, as well as the policies or strategies that bring them together.
- A review of existing co-op education programs with a view to expanding the generic approach to member and director training—

incorporating new material that challenges traditional thinking around business and governance models—would encourage people to consider new approaches.

- An examination of the social nature of co-operatives would provide an understanding of the complex human relationships that exist within them and the linkages to a broader community.
- Experimentation with new distance-education techniques would reveal different methods of reaching members in their own communities and homes.
- A better understanding of how globalization is affecting people in different sectors and locations would be beneficial to co-operative members and leaders as they grapple with strategies to adapt to this phenomenon.

Concluding Remarks

WHEN THINGS ARE CHANGING SO RAPIDLY in Canada's social and economic environment, it would be easy to view co-operatives as something "old," as an organizational form that does not have much relevance to the future. Considering the struggles of the Prairie grain co-operatives or the western dairy co-ops, one could be forgiven for making this assumption. In fact, there may be some validity to the observation that the co-operative model is slow to change and does not adapt easily to large, centralized business operations.

In direct contradiction to this, however, is the continued success of the co-operative retailing system and the credit union system. In both cases, the co-op model is thriving in markets that are dominated by some of the largest corporate entities in the country, or indeed the world. The reasons for this are many and varied, but in simplest terms,

these co-operatives have remained connected to their members' needs and their communities. They have developed and maintained a strong identity and have used it to their commercial advantage.

There is every reason to be optimistic about the future for co-operatives. The changing world order creates an opportunity for organizations responsive at the local level to be part of a much larger and broader network. The greatest challenge is for co-operative leaders to seize this opportunity, recognizing that they operate in a globally interdependent system that requires co-operation within and between different sectors.