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Jan Myers and John Maddocks

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Principles and Practice: Points of Fracture?

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It is taken as read that co-operatives and mutuals subscribe to a set of core values and principles articulated in the International Co-operative Alliance (ICA) Statement on the Co-operative Identity (MacPherson,1995; ICA, 2015). The principles include factors that help to define organisations as co-operatives: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education and training; co-operation among co-operatives; and concern for community. For Birchall and Ketilson (2009), the first four of these principles are seen as core and without which a co-operative would lose its identity. So how intact and robust are these principles in practice and is it possible to see points of fracture and tensions that may be cause for concern? Have and do the tensions support different imaginings of co-operatives as we respond to continued social, economic and environmental crises and as new forms of co-operativism emerge? In Table 1, we point to some points of past and current contention and areas for further discussion and exploration. It is not an exhaustive list or even a list of what some would see as necessarily or inherently problematic; issues may align with one or more principles but for simplicity we have included them only once. As such, it is not presented as a list of problems but as a springboard for continued explorations and discussions, many of which have been underway for some time.

If we look specifically at the four principles that Birchall and Ketilson (2009) define as fundamental to co-operative identity, we can identify a number of points of fracture or tensions for co-operative values-led organisations.

Voluntary and Open Membership

This is a fundamental aspect of many member-based organisations and a core principle in terms of co-operative enterprises. It has long been recognised that not all co-operatives fully adhere to open membership in the sense that some are set up for specific groups of members and so impose restrictions on membership (e.g., housing co-operatives). Members in financial mutuals are both investors (savers) and consumers (borrowers) and the interests and purposes of the organisation are aligned, to varying degrees, with those of members. This can be exhibited through greater loyalty, feelings of ownership, engagement and participation. However, we also know that the flip side to these positive attributes of co-operative membership includes a removed membership and lack of active participation, which in turn gives opportunities for a strong management culture to develop and mature. Moreover, the role of regulations and regulators in removing some of the influence of members through, for example, mandatory ceilings on returns, deposit insurance and so on leads to control being more concentrated at management levels (Chaddad, 2003).

There are also country and cultural differences in the growth and development of financial and other co-operatives. German co-operatives have a broad, heterogeneous clientele many of whom are non-co-operative members (Côté, 2001) and this highlights the distinct development of co-operative mutuals and banks in Germany. In 2019, however, the number of co-operative credit institutions fell from 879 to 845 (mainly due to mergers), following a similar trend in 2018 and 2017 (Deutsche Bundesbank, 2020, p. 3) and with a concomitant closure of 471 branches (p. 8).

Table 1: Principles and practice

Principle	Points of fracture?
1. Voluntary and open membership	• Government social and public policy (e.g., financial inclusion) versus co-operative financial organisation aims and objectives (financial sustainability). • Relatively recent that a woman was elected as first female president of the International Co-operative Alliance (in 2009) and even more recent for the first female chair of Co-operatives UK (in 2013, after 143 years). • Limited or closed membership. • Open versus active membership (voluntary and active vs voluntary and inactive).
2. Democratic member control	• Institutional investors (non-members) with shares and decision making 'rights' in building societies (e.g., West Bromwich Building Society). • Co-operative bank models with investor shareholder ownership rather than associative member-based ownership (e.g., UK Co-operative Bank, Italian Bank Populaire). • Tiering of organisational structures with resultant centralisation of strategy and decision-making and complicating governance processes. • Single versus multistakeholder co-operatives.
3. Member economic participation	• Co-operative forms (found in agri-food and dairy farming) that made up the 'new generation co-operatives' and allow for transferable and appreciable equity rights for those members investing in the co-operative; moving away from traditional co-operative restrictions on claims to the residual assets of the co-operative limited compensation on capital subscribed as a condition of membership and restrictions on the trading of member shares and rights relating to transacting with the co-operative. • Moving beyond traditional member capital to include capital market funding/external investors. • Partial (or full) demutualisation/ transfer to public or investor-ownership . • Thresholds for member investment.
4. Autonomy and independence	• Treasury aid e.g., for Dunfermline bail-out. Special case made for government tax treatment of co-operative dividends and patronage returns. Substantial government funding for development of credit unions in line with government policy goals. • Regulation and legal frameworks — degrees of flexibility and constraints for co-operatives. • Government sponsored programmes of co-operative development.
5. Education and training	• Outsourcing of activities removing obligation to train some staff. • Dependence on external education and training provision which focuses almost exclusively on investor-owned business models.
6. Co-operation among co-operatives	• Increased competition as financial institutions move away from their traditional geographical base and seek a wider regional or national presence. • Competing interests of co-operation among co-operatives and value for money. • Possibility of informal local cartels or barriers to new co-operative entrants to a market.
7. Concern for community	• Collective well-being vs individual or business well-being and wealth accumulation. • Member centricity. • Digital divide/inclusion opportunities — as services move more to digital technologies.

Many of what were termed the new generation co-operatives also put limits on the openness of membership by restricting membership to those who purchased delivery rights shares (in producer co-operatives). For example, by providing a contract between producer-members and the co-operative, producers purchased a right which is also an obligation to deliver an agreed amount or level of product within an agreed period (if they cannot produce it, they must purchase it elsewhere to fulfil their contract). Patronage was based on the level of transacting with the co-operative, as with other co-operatives but membership was closed once the targeted amount of delivery rights has been attained. These types of relationships and transactions also create tensions when we consider ownership and membership control.

Democratic Member Control

Most new generation co-operatives maintain democratic member control through one-member-one-vote although this is often seen as a disadvantage for producer-members who have purchased a large number of delivery rights in relation to other members. However, in New Zealand co-operatives are not obliged to adopt a model where shares have a nominal value, nor are they restricted to the democratising principle of one-member-one-vote or voting rights linked to membership all of which are seen as limitations to successful operations:

> ... many jurisdictions allow cooperatives to issue equity securities to non-members, and to appoint non-members to their boards of directors. In New Zealand this includes the issuance of voting shares to non-members provided that no less than 60% of voting rights are held by transacting shareholders (Evans & Meade, 2005, section 2.5).

Member Economic Participation

This principle stresses equitable contribution and control of co-operatives by members and member benefit linked to the level of transacting with the co-operative rather than through a return on member capital invested. Some surpluses generated by the co-operative are indivisible and are retained under common ownership. The new generation co-operatives stretch these characteristics by building a stronger linkage between economic benefit and the amount invested by the member. In addition, the ability to buy and sell member transaction rights allows for a degree of transferability of rights associated with membership as well as transferability of some of the equity in the co-operative; a characteristic not typically found in more traditional forms of co-operative.

Autonomy and Independence

Looking specifically at credit unions there is a history of tension between “enterprise and community services discourses” (Mangan, 2009, p. 96). With the growing interest in the support and promotion of credit union movements as part of the development of a range of accessible financial services geared to connecting with marginalised communities and individuals not necessarily able to access mainstream banking services, there has been increased emphasis on the role credit unions have in tackling financial exclusion, poverty and social and economic development. This is part of a broader public policy approach and there is no doubt that the development of credit unions has played a significant role in reaching under-served and excluded communities internationally. Does this government led approach, however, influence and potentially limit the nature and range of services provided and lead to a narrower, less diverse, membership base?

Substantial sums of government funding have been made available to credit unions with a view to accelerating their development and growth, but in a top-down approach which arguably more closely reflects government goals and targets for addressing social and financial exclusion rather than reflecting the extent and nature of any local community desire for or engagement with local, small scale, member based financial institutions. While not ignoring the need for enabling regulatory and institutional environments, this nevertheless raises tensions around autonomy and independence and the dynamic between social benefit and economic viability (Myers et al., 2012); a paradox highlighted by Jones (2008) in needing to attract wider sections of the population in prioritising serving the poor.

Final Comment

What appears to be at the heart of both the co-operative values and principles and possible points of fracture is the member and their relationship with the co-operative organisation. As we see with government and citizens, where this democratic relationship atrophies then we risk losing it; where it is re-invigorated, we see new possibilities.

The Authors

Jan Myers is Associate Professor of Business & Society at Northumbria University. John Maddocks is researching accounting and reporting for social value at Newcastle Business School. Both are members of UKSCS.

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