# COOPNET

*Human Resources Development*
*for Cooperative Management and Networking*

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# Managing the Cooperative Difference

*A survey of the application of modern management practices in the cooperative context*

*by Dr. Peter Davis*

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Cooperative Branch
International Labour Office Geneva

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# Foreword

The interregional programme of ILO/DANIDA, COOPNET *(Human Resources Development for Cooperative Management and Networking),* responds to changes in the economic, social and political environment of cooperatives in developing countries by focusing on human resource development (HRD). The programme focuses on strengthening the capacity of local and national cooperative HRD institutions to develop their own programmes to promote cooperative development. In particular, COOPNET supports the efforts of cooperative HRD institutions to upgrade their management development programmes through improved curricula and methodologies.

It is in this context that Dr. Peter Davis, Director of the Unit for Membership Based Organizations, The Management Centre, Leicester University (UK), was commissioned to prepare this study, entitled "Managing the Cooperative Difference: A survey of the application of modern management practices in the cooperative context". As its title suggests, this study explores the relation between current management thinking, in a broad sense, and the particularities of managing a cooperative enterprise. In the author's words "managers managing cooperative organizations should have access to not only the best and latest management techniques, methodologies and strategies but that they should understand how to apply them in the context of the cooperative values and purposes that their organizations serve". Dr. Davis firmly believes that enterprises based on mutuality and community are better placed than other types of enterprises to apply modern management concepts. He also advocates, through careful analysis, that it is the cooperative values, principles and structures that provide cooperatives with their competitive advantage.

This publication, therefore, hopes to make a conceptual contribution to the improvement of cooperative management practices enabling cooperatives to better face the challenges posed by increasingly competitive markets. Furthermore, we hope that this study will encourage cooperative HRD specialists to re-examine the content of their management training programmes in the light of the analysis contained herein. We consider that Dr. Davis' study contributes significant input to the on-going debate on future modes of operation of cooperative enterprises in a globalized, liberalized and deregulated market.

The Cooperative Branch is grateful to Mr. M. Levin and Ms. A-B. Nippierd of the COOPNET Programme for reviewing the text and to Ms. Nippierd for preparing it for publication. The author expresses his own views which do not necessarily correspond to official ILO policy.

J. Fazzio
Chief, Cooperative Branch

# Acknowledgements by the Author

The core research for this survey has arisen out of a 2-phased programme of investigation. The first phase was undertaken in consultation with the International Co-operative Alliance (ICA) global and regional offices and involved structured interviews with over forty C.E.O. and HRM professionals drawn from over 20 countries involving the active collaboration of Mr. John Barker at the University of Loughborough and Mr. John Donaldson.[1] Phase 2 has been a series of presentations, discussions and exchanges at ICA-led regional seminars and think-tanks. This has been possible for me over the last two years thanks to the collaboration and cooperation of Mr. Jan-Eirik Imbsen and Mr. Bjørn Genberg at ICA head office in Geneva and in the ICA regions. Thanks are due to Mr. Juan Diego Pacheco (Director, Regional Office of the Americas), Mr. Robby Tulus (Director, Asia Pacific Regional Office), Mr. Ada Souleymane Kibora (Director Regional Office for West Africa) and Mr. Vincent M. Lubasi (Director, Regional Office for East, Central and Southern Africa). I have also been greatly facilitated in gaining access to practicing cooperative managers in Africa by Mr. Sam Mshui (ILO-COOPNET, Moshi), Prof. Suliman Chambo of Cooperative College Tanzania, Mr. Bernard Wolimba, Vice President ICA Africa, Mr. Charles Kabuga, General Secretary and Mr. Leonard Msemakweli, Deputy General Secretary, Uganda Cooperative Alliance Ltd., Mr. Savvas Phil. Droussiotis, founder and head of the Ayios Dhometios Cooperative Savings Bank, Cyprus, Mr. Savvas K. Protopapas, Director of the Cooperative Societies Audit Service of Cyprus, Prof. Costas Papageorgiou of the Department of Agricultural Economics in the Agricultural University of Athens, Mr. Chris Baker and Mr. Ralph Svoboda of the WOCCU, Mr. Edgar Comeros, Executive Director of VICTO, Dr. Yehudah and Mrs. Ruth Paz from Kibbutz Kissufim, and three remarkable, courageous and energetic women leaders, Ms. Teresita de Leon, General Manager of NATCCO, Mrs. Esther Gicheru, Principal, Co-operative College of Kenya, and Mrs. Armi BT HJ Zainudin, Director, Cooperative College of Malaysia.

From my home country there are a number of cooperative executives who have generously given of their time. I must particularly acknowledge Mr. Terry Thomas (whose influence on my thinking has been substantial), Mr. Harry Moore, Mr. Len Fyffe, Mr. Keith Darwin, Mr. Hugh Garrett and Mr. Richard Sampson. I am also indebted for the many seminars and conferences and informal discussions I have had with NACO members at various levels. Not least I am indebted to their General Secretary, Mr. Lindsey Ewing, who has shared his ideas with me on many occasions and has provided many opportunities for me to meet his members. Lastly, let me

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[1] Some of the research referring to issues relating to distance learning as a management development tool for cooperatives was prepared and published in 1994. See John Barker, Peter Davis and John Donaldson, *Masters Degree by Distance Learning in the Management of Cooperatives Feasibility Study*, Universities of Leicester and Loughborough, (UK, June 1994).

acknowledge the membership and particularly the Committee members and officers of UK Society for Co-operative Studies that provides a unique forum in the UK for the critical analysis of ideas and policies for the development of the cooperative movement. I feel particularly indebted to two long-serving officers of the Society, Mr. John Butler, Deputy General Secretary of the Co-operative Union, and Mr. Frank Dent, former Head of Corporate Affairs at the CRS Ltd., both of whom have always responded helpfully to my requests for information over many years. There are many more cooperators who have wittingly or unwittingly contributed to this book but one that I cannot close these acknowledgements without mentioning is Mr. Graham Melmoth. We got to know each other not in England but through our constantly meeting up at overseas gatherings of the ICA during Graham's Presidency. His warm support and advice and the interest he took in my work during these travels was a great help and encouragement to me.

Many non-cooperators have also contributed to this survey. Management writers, innovators and teachers whose intellectual debt I bear witness to at many points in this survey by reference to their works. I must particularly acknowledge the contribution of my colleagues at the University of Leicester Management Centre whose teaching materials and papers used on the Leicester MBA programme I have been able freely to draw upon. All remaining errors and omissions in this work remain entirely my own.

Finally, I would like to thank Mr. Joseph Fazzio and Mr. Mark Levin of the ILO Cooperative Branch for enabling this survey to be published and for their patience as I struggled to complete the task.

Dr. Peter Davis

# Preface by the Author

Management is an essentially practical activity. It does not, therefore take place in a vacuum but in a definite and specific context. Successful management responds to its environment and is quick to recognize changes to that environment. If those responses are to be more than simple reactions to external pressure, they will have been selected with reference to the values on which the organization is founded and the purpose to which the organization is directed.

This survey has been produced in order that managers managing cooperative organizations should have access to, not only the best and latest management techniques, methodologies and strategies, but that they should understand how to apply them in the context of the cooperative values and purposes that their organizations serve.

It is a principle theme of this survey that these latest ideas in modern management have greater synergy to membership-based organizations founded on the principles of mutuality and community than their share capital based rivals. Another theme is that cooperative values, principles and ownership structures can provide cooperative management with a competitive advantage in the marketplace. The idea of cooperative management will be used in two distinct ways throughout this survey. Firstly, as a distinctive philosophy of managing business which can be applied in any business whatever the ownership structure. The detailed exposition of this distinctive philosophy can be found in *Cooperative Management. A philosophy of business,* by Davis and Donaldson.[2]

In its second usage it will refer to the practice of managing a cooperative business organization. There is a commonly held distinction within cooperative circles between the social and business objectives of the cooperative. I shall argue that this distinction is of little practical use and at all times when I refer to the cooperative "business", I refer to the whole cooperative project. This brings me to the third principle theme of this survey. The abolition in practice (obviously there is an important conceptual point), of the distinction between commercial and social activities. Membership-based organizations that are not managed as associations or societies will not be able to realize the potential competitive advantage the existence of their membership base

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[2] I am indebted through my long standing intellectual collaboration and friendship with John Donaldson to having been able to complete a fully worked through value and philosophical foundation for the practice of cooperative management in our co-authored book, *Cooperative Management. A philosophy for business*. The practical issues that I raise for the development of cooperative management in responding to the need to develop cooperative organization, have their value and philosophical starting points in this book and in some earlier works referred to in the references below. *Cooperative Management. A philosophy for business* can be obtained from New Harmony Press, 48, Clarence Square, Cheltenham, Glos. GL50 4JR, U.K or New Harmony Press website www.co-opbooks.org

gives them. The social dimension has as much commercial significance for the operations of the cooperative business as does the technical conditions governing the systems and processes specific to the product or service being delivered.

The reader may already have noted that there are no chapters specifically dealing with cooperative values or social purpose. This is not because as a management book such matters are of no consequence but because they are so important that they appear in every chapter. They are an integrated component of the total package of tools available to the manager of a cooperative organization. I have just suggested that if the cooperative is to be well managed, the organization and the network of supporting relationships that sustain it must be understood as a mutual association. Cooperatives are membership-based associations, whose community roots and cooperative values reach out to associate the membership with the other stake-holders involved in the cooperative: employees (who in some contexts may also be members), suppliers, customers (who in some contexts may also be members), and other interested "constituencies"[3] I use the term constituencies to refer to other stakeholder interests affected by the cooperatives' activities and purposes.

The purpose of this survey is to enable the reader to find all the necessary tools to define appropriate methodologies, policies and strategies to enable their cooperative association to successfully compete in the modern global market and further develop its business. It remains as the final task of this preface to justify why this survey is important. At one level this is also a case of justifying why the cooperative purpose is itself just as relevant as it ever was.[4]

As cooperatives develop to face up to the challenges of transition from regulation to deregulation and from national to global markets, the pressures on management become greater. The uncertainty of the open market requires greater skills, increasing flexibility and innovation as the cooperative business organization and its environment become more complex. The economies of scale being achieved by cooperatives' competitors are inevitably forcing cooperatives to grow in size themselves and to enter into trading partnerships in order to achieve similar economies and quality gains in their own operations. The new terms of trade and scale of operations create more complex and high-risk business decision making than

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[3] For a thorough discussion of the concepts of stakeholder (constituency) management from the perspectives of value-led governance and value-led commercial relationship management see Donaldson, J. with D. O'Brien: *Business in Balance*, CSMS, Occasional Paper, (Reading, 1994) and Terry Thomas: "Inclusive Partnership: The key to business success in the 21st century," *Journal of Cooperative Studies*, Vol. 30 (89), May 1997.

[4] What follows in this Preface is inevitably a mere brief rehearsal of well-know arguments. I have tried to review in more detail the strategic case for the continuing relevance of cooperative values and organizational principles in *Cooperative Management and Organizational Development for the Global Economy*, Discussion Papers in Management Series No. 94/7, Management Centre, University of Leicester, Leicester, (UK, August 1994).

cooperative boards have ever faced in the past. Thus creating even more dependency on the professionalism and integrity of their full time management team.

The critical issue of managerial commitment and the dangers a lack of commitment can produce for the cooperative and mutual sectors has been graphically exposed in my own country by the betrayal of the mutual building societies whose managers never made an economic case for privatization. They were able to buy off an already nominal membership with what were small sums of money. That is money that was disgracefully drawn out of reserves which had been accumulated through mutual trading for more than a century. Even more disturbing were the foiled activities of some senior executives in CWS Ltd which, had they succeeded, would have virtually destroyed in one stroke the core of the world's oldest established cooperative movement.

The increasing size and greater managerialism of the cooperative business has exacerbated the problem of increasing and unavoidable dependence on professional management. Under these conditions maintaining the identity of the cooperative as a distinct form of membership-based enterprise rooted in the concepts of self-help, mutuality and community, has become problematic. The post second world war environment in east and west, north and south has also conspired in various ways to undermine cooperative values and principles in the wider society and within the cooperative enterprise itself. The deregulation of markets and privatization of formerly socially-owned assets has in some people's minds challenged the whole need for the continuation of cooperatives.

This is ironic when it is remembered that cooperation was born out of the introduction of the free-market economy and the many failures and injustices that the free market generated. Today the idea that cooperative purpose is to provide the market leverage by association that as individuals their members could not achieve is having to be re-learnt. The importance of community for cooperatives is also something that is having to be thought through in the new circumstances. The traditional linkages of the cooperative to the community have all but dissolved in Eastern Europe after years in which the cooperative has been subsumed under the control of the state. In the West the same distance has been created by different social forces characterized by increasing individualism and social fragmentation due to urbanization, depopulation in the rural communities and the changing role of women in the labour market.

Whilst the new ICA Statement on Identity has reaffirmed the basics and given the whole movement the most all embracing and clear statement of cooperative values and principles in its history, the Identity Statement's emphasis on process and governance has underplayed the significance of why people cooperate. Not only this, but by ignoring the importance of professional management, it has left both members and managers unclear about the role and distinctiveness of cooperative management. It is of the most urgent concern that we address this matter on two grounds. First, to ensure that the identity statement itself is implemented. Secondly, to ensure that the cooperative difference is managed and mobilized to establish a genuine competitive advantage for the cooperatives operating in the new global market.

The continued existence of poverty and social exclusion in every continent has been intensified by the increasing polarization within society and the concentration of economic power in the world economy. The universal concern over the weakening of community and the impoverishment of relationships should leave no impartial observer in any doubt concerning the crucial continuing relevance of cooperative values, structures and associations. Cooperatives have a key role to play in responding to the global development agenda. They remain central to the prospects for prosperity for the individual producer and consumer operating in all sectors of economic activity.

If the free market reforms are to benefit everyone then we need access to the market on a reasonably level playing field to be extended to everyone. Cooperatives provide one important structure to ensure that the individual can enter the market and achieve some countervailing leverage within the market. Today the markets of the world are dominated by oligopolistic competition which in some regions/sectors has come close to monopoly. Cooperatives provide alternative service-led rather than profit-led centres for capital accumulation. As such they can potentially force on the rest of the market improved standards of quality in terms both of the product/service provided and the environmental and ethical contexts.

The case for a principle of cooperative management as being an important component of the cooperative identity and the implication the idea of cooperative management has for determining a new approach to management and to executive management/board relationships, has been already been made.[5] As far as the issue of the application of cooperative management as a practice is concerned we have argued that much of the development of mainstream management has in fact developed concepts and techniques that are practically very applicable in the cooperative context. Indeed they may even be more easily applicable in the cooperative ownership structure than to the share-based form of business. We try to take these arguments forward here to a consideration of the practical differences implied by the concept of cooperative management. In particular in its use of mainstream management concepts to inform the style and content of the cooperative managers'

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[5] My three earlier papers, which develop the conceptual issues and trace some of the historical developments in modern management thinking in relation to the idea of a specifically cooperative management approach, published over the period 1994 to 1997, "Cooperative Identity and Cooperative Management", "Are Co-op Managers servants or leaders?", and "Towards a Value-Based Management Culture for Membership Based Organizations", have now been brought together and included in a single volume entitled *Report of the Special Workshop on the ICA Cooperative Identity Statement - From Theory to Practice*, ICA Regional Office for Asia and the Pacific, New Delhi, India, November, 1997. ISBN 92-9054-045-1

day to day work.

The structure of each chapter will be to commence with a chapter summary. The chapters survey the methodologies and conclude with suggested action points to help cooperative managers and boards who find themselves confronting problems such as low returns on investments, declining market share, increasingly innovative and aggressive competitors, loss of membership, poor image in the marketplace, poor staff morale and productivity, and loss of strategic direction.

In the third part, there is a case study which illustrates how one cooperative business has successfully used cooperative values as a management tool to great effect in the implementation of the strategies and policies suggested by this survey.

# Contents

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# Abbreviations

| | |
|---|---|
| AQL | Acceptable Quality Level |
| BPR | Business Process Re-engineering |
| CEO | Chief Executive Officer |
| CIRIEC | Centre Interdisciplinaire de Recherche et d'Information sur les Entreprises Collectives |
| CIS Ltd. | Cooperative Insurance Society Ltd., UK |
| CRS Ltd. | Cooperative Retail Society Ltd., UK |
| CUAC | Central Union of Agricultural Cooperatives, Japan |
| CWS Ltd. | Cooperative Wholesale Society Ltd., UK. |
| DTI | Department of Trade and Industry, UK |
| GATT | Global Agreement on Trade and Tariffs |
| GDP | Gross domestic product |
| GDR | German Democratic Republic |
| HRD | Human Resource Development |
| HRM | Human Resource Management |
| IBM | International Business Machines |
| ICA | International Cooperative Alliance |
| ICOM | Industrial Common Ownership Movement, UK |
| ILO | International Labour Organization |
| JIT | Just In Time |
| MBA | Masters Degree in Business Administration |
| NASCO | North American Student Housing Cooperative |
| NATCCO | National Confederation of Cooperatives, Philippines |
| OD | Organizational development |
| R&D | Research and development |
| SCC | Swedish Cooperative Centre |
| TQC | Total Quality Control |
| WCM | World Class Manufacturing |
| WCCQ | World Class Cooperative Quality |

# PART ONE

## The Cooperative Movement and its Management

*A strategic review of context, roles, relationships and organizational culture*

# 1 Where Are We Now? The Problem Defined

## *Cooperative management and organization*

*Chapter summary*

Cooperatives were founded to operate and compete in free markets. The record shows a diverse and extensive range of cooperative businesses operating world wide. Without cooperative options many people will be denied access to the marketplace except on very unequal terms. Open access is a key requirement for the optimal working of the marketplace. Cooperatives are one important mechanism for providing access to the market. In many cases cooperatives are struggling to compete for one or more of the following reasons:

1. There is a duplication of services and functions within the cooperative movement because cooperative organizations are not merging and consolidating fast enough to match their competitive environment.

2. Cooperatives have been slow to develop in the fastest growing technologically based leisure, information, manufacturing and pharmaceutical sectors.

3. Only a small proportion of primary cooperatives operate at national level and even fewer can trade internationally.

4. Most primary cooperatives operate as the low value added link in their industries supply chain.

5. Cooperatives are characterized by the absence to a substantial degree of entrepreneurial spirit or culture leading to missed opportunities and lack of innovation.

6. Cooperatives lack a commitment or awareness of the need to develop cooperative executive management and generally do not recognize management's crucial leadership role in defending cooperative purpose and values.

7. There has been no real attempt by the movement to incorporate cooperative management within the statement of cooperative identity. This risks leaving large cooperatives in the hands effectively of a professional management operating along lines and with a culture and style that may be inappropriate or even hostile to cooperative values and purposes.

8. Structural Adjustment Programmes in the developing economies in the

southern hemisphere have had both a negative and positive impact on cooperatives. Negative in respect of the speed of transition forced on existing cooperative organizations and the withdrawal of subsidies and market protection. Positive in enabling the freeing up and restructuring of cooperatives to provide better and wider ranges of services which are more responsive to the needs and opportunities presented in the market place.

*An overview of the global cooperative movement*

The cooperative enterprise incorporates a global membership of approaching three quarters of a billion individual members spanning 93 countries and 236 federal member organizations.[6] Cooperatives cover the full range of business sizes from micro- level credit, community, fishing and worker cooperatives to substantial players in the banking, insurance, agricultural marketing and supply sectors. Examples, sometimes isolated, of cooperative businesses can be found in most areas of economic life. For example, cooperatives can be found successfully trading in mineral extraction in South Wales, rural electricity generation and supply in the USA, fertilizer manufacture in India at one end of the spectrum, and as architects in Scotland, industrial cleaners in Italy, fine china manufacture in the Czech Republic and ethnic based craft people found in Asia, Africa and Latin America. In some countries farmers provide the core cooperative community, in others it is consumers. Financial services predominate but there are also substantial cooperative businesses in retailing, housing and health services. Some cooperative movements trace themselves back to the 1840s others have been barely in existence over a generation. Employment cooperatives do exist in many countries but only rarely are they significant manufacturers or service providers within their national context.

The cooperative movements overall statistics are published on a regional break down by the International Cooperative Alliance (ICA).[7] In the Americas region, ICA member organizations amount to 26%. with individual membership accounting for 25.1% of world membership. In North America, agriculture (including fishing), housing and credit cooperatives predominate with interesting experimental community and health cooperative initiatives, rural electric cooperatives and some impressive but rather isolated industrial cooperatives. There is also a very well organized cooperative student movement (NASCO) based on housing cooperatives for university students.[8] In South America, cooperative enterprise has been largely

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[6] ICA: *Annual Report 1997-1998, Review of International Cooperation*, Vol. 91, No. 2, Communications Dept., ICA (Geneva, 1998), p. 15.

[7] ibid. pp. 2-3.

[8] Jones, Jim: "North American Student Housing Cooperatives" in *Yearbook of Co-operative Enterprise*, The Plunkett Foundation for Cooperative Studies, Oxford, 1993, pp.111-117.

promoted by the Roman Catholic Church and the state since the 1960s.[9] Most types of cooperatives exist in this region but the larger ones are often politically controlled and poorly managed and the smaller ones are economically very marginal although their role amongst the poor is often critical.

The Europe region of ICA member organizations represent 15% of organizational membership and 16.3% of individual membership. In Western Europe, in the UK and Scandinavia, the consumer, agricultural and fishing cooperatives predominate although there is a small but articulate and well-led worker cooperative movement in the UK organized around Industrial Common Ownership Movement and Industrial Common Ownership Finance Ltd. Worker and agricultural (particularly marketing) cooperatives exist in France and Italy with agriculture and fishing cooperatives dominating in the Mediterranean economies including Cyprus and Greece. The Raiffiesen Banks remain the core of the German cooperative movement. The position is complicated by the integration of the former GDR and German cooperatives are facing problems, as in Eastern Europe as a whole, in establishing a separate post-communist identity.[10]

In Eastern Europe and Russia, the impression is one of disintegration and privatization in parts with the enforced closure of federal bodies in the new Czech Republic.[11] In Bulgaria, a more positive political environment has created more autonomy and freedom on capital structure but permitted four federal bodies to remain on a voluntary basis representing worker, agricultural (77% of all cooperatives) and disabled peoples cooperatives plus the Central Cooperative Union.[12] In Hungary, 5 million members remain in cooperative enterprises: 1,341 agricultural cooperatives, 16 fishery cooperatives 3,450 industrial cooperatives, 179 marketing cooperatives, 260 credit and banking cooperatives and 1,407 building cooperatives. Bankruptcy is, however, running at a high level (233 in 1992).[13] There are approximately 220,000 cooperative businesses surviving in Russia employing around five million people in 1990. The largest sectors are in manufacturing (2.1%),

[9] Benecke, Dieter E.: "Cooperatives in Latin America," in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, pp. 163-177.

[10] Gueterbock, R.: "A new role for Cooperatives in Germany's New Länder," in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, pp. 25-32.

[11] Mavrogiannis, D.: "Role of Cooperatives in the Privatised Economies of Central and Eastern Europe" in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, pp.1-16.

[12] Meurs and Rock, Charles: "Recent Evolution and issues of Bulgarian Cooperation" in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, pp. 39-52.

[13] Csaba, D.: "Transforming Hungary's Cooperatives for Economic Development" in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, pp. 33-38.

domestic and consumer services (13%), and building (24.9%).[14] From discussions with people who have recently visited Russian cooperatives the impression given is that they are desperately short of the management expertise to handle the new market based economies.[15] Genuinely free cooperative enterprises are emerging and the social consequences of the introduction of market economies and deregulation of labour markets is likely to lead to a regeneration of cooperative enterprises in Eastern European countries where some like the Czech Republic have an indigenous cooperative history dating from the 1840s.[16]

Africa remains the weakest and most troubled region of the ICA. Its member organizations represent merely 8%. of the total and individual membership a mere 1%.[17] Africa has in various parts agricultural, consumer, housing, credit, and worker cooperatives. They are very much top down initiatives and have been subject to much political control in some countries. Cooperative strategies are seen as central to the regeneration of many of the regions economies where adverse trade terms, foreign debt and civil war or tribal conflict and rivalry have created economic and social dislocation.[18] The impact of Structural Adjustment Programmes has been well documented. Many cooperatives have ceased to exist and cooperative unions disappeared with the ending of their parastatal status. Notwithstanding this, other cooperative movements in Africa are still not permitted by their governments the flexibility to respond to the market that is enjoyed by their private sector competitors. A genuine market led cooperative movement is beginning to emerge capable of playing a positive role in contributing to the aims of the Structural Adjustment Programmes. These positive developments are threatened by a lack of technical support resources to develop management in African cooperatives. There is no continuing provision for distance learning although some radio-based cooperative programmes have been tried. There are also a number of centres for cooperative education in Africa,[19] the two largest being the cooperative colleges in Tanzania (Moshi) and in Kenya (Nairobi). The West of Africa is served by the Institut

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[14] Cox, T.: "Cooperative development in Soviet and Post-Soviet Society" in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, p. 63.

[15] Edgar Parnell, Former Director, The Plunkett Foundation for Cooperative Studies, Oxford.

[16] Vladimira, Vaurova, Director, Muzeum Druistevnictvi, Praha, The Czech Republic, 1994

[17] ICA: *Annual Report*, op.cit., p. 15.

[18] Bibangambah, Jossie R.: "The Cooperative Movement in Uganda's Transition to a Free Market Economy", and Schwettmann, Jürgen: "Cooperative Economies under Reconstruction: Cameroon, Tanzania and Uganda" in *Yearbook of Cooperative Enterprise*, The Plunkett Foundation, Oxford, 1993, pp. 69-81.

[19] Dr. Aboudou Touré Cheaka, Director, The Pan-African Centre for Cooperative Training, Benin.

Supérieur Panafricain D'Economie Coopérative in Benin. Largely these institutions lack the resources to develop management at the post-graduate level.

The Asia Pacific region is the largest in the ICA with member organizations accounting for 27% of the world's cooperative organizations but containing 57.2% of ICA individual membership.[20] India and Sri Lanka have very well developed cooperative colleges and a very large number of funded university chairs[21] The largest cooperative in the world - the Anand Dairy Cooperative is based in India. The Malaysian Cooperative College has perhaps the best qualified faculty of any cooperative college in the developing world with all its faculty educated to Masters level. Insurance and other financial services are run successfully in Singapore and elsewhere. Fishing, agriculture and multi-purpose cooperatives predominate in the Pacific. In the Philippines, NATCCO reports having 1,286 affiliated cooperatives of which 28% are credit unions and 54% multi-purpose and about 8% are consumer cooperatives.[22]

The sectoral breakdown of ICA member organizations worldwide is listed below:

| | |
|---|---|
| Agriculture, fisheries, forestry | 21% |
| Consumer | 17% |
| Financial services, credit unions, banks, insurance | 26% |
| Workers, artisan | 10% |
| Housing | 8% |
| Transport | 2% |
| Health | 1% |
| Social care | 1% |
| Utilities | 1% |
| Others | 13% |

What this brief review demonstrates is that cooperatives are trading successfully across the globe. They have the potential to provide a challenging and rewarding management career. They operate a variety of commercial enterprises based upon human-centred values and purposes that they hold in common uniting a wide diversity of cultures in every continent on earth. The rewards of managing cooperatives are to be found in their unique ownership structure, values and purpose which empowers within the marketplace the small trader, farmer, fisherfolk, individual worker, and consumers of a wide variety of services from domestic shopping to housing, financial, leisure and health services. We now turn to a brief

[20] ICA, op. cit. p. 15.

[21] Mrs J. Bulamulla, Former Principal, The Cooperative College, Sri Lanka. (1993)

[22] Centre for Community Services: *Co-op Review Profile and Performance of NATCCO Affiliates*, Vol. 1, National Confederation of Cooperatives, 1997.

review of the values and purposes as they effect our understanding of the role of the modern cooperative manager.

*Strategic problems facing the cooperative movement*

Some of the problems outlined below are specific to the cooperative movement but many are of course common to all small and medium-sized businesses.

*Concentration and competition*

The contemporary political and environmental global realities post GATT refuse to be ignored and threaten to engulf us all. Increasing intensive competition is being experienced in all national economies as new transnational competitors enter the market. The pressure, for example, on consumer cooperatives from multi-national distributors many operating as price discounters is real and well documented.[23] The growth in concentration of organizations in the wholesale and retail food sectors also raises serious challenges to the future of the small food producers who for so long have been the social and cultural foundation of Europe and whose role in many third world economies is even more crucial.

The growth in the size of cooperative enterprises as they struggle to keep up with the geometric growth of the transnational corporation has had its impact on cooperative membership, creating a sense of distance from the organization and dependency on top management. The sense of ownership and loyalty to the cooperative community becomes harder to maintain and in some quarters of the cooperative movement member involvement has all but disappeared. In the United Kingdom in 1960 there were 1,000 consumer cooperatives now there are just 60 and that is probably 59 too many in commercial terms. In Italy since 1960 some 3,000 cooperatives have been reduced to 450. The increasing scale of cooperative commercial activities also creates additional pressure for improved management in terms of professionalism and business performance. It requires developing in-house competencies that were previously located in cooperative federals if they existed at all. Too many cooperative mergers have been as a result of failure rather than strategic development. There have been too few cooperative joint ventures that cross national boundaries and recent attempts in Europe at international cooperative cooperation appear to have had only very modest results.[24]

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[23] Worthington, Steven and Davis, Peter: "Fashioning a Future for Cooperative Retailing", *Cooperative News*, 24 May,1994, pp. 6-8.

[24] Jones, Roger: "The Implications for the Consumer Cooperatives of the New Europe", *Yearbook of Agricultural Cooperation*, The Plunkett Foundation for Cooperative Studies, Oxford,1990, pp. 1-12.

The need for cooperative societies to respond to the intensification of competition as the globalization of economies and markets continues is obvious. One key part of the cooperative response must be in terms of developing a global market presence. Another requires that a significant proportion of cooperative investment is placed in the knowledge/information based industries where the highest growth rates are to be found. Cooperatives must ensure that they are technologically at the forefront in the application of relevant technologies.

*The battle for hearts and minds*

The transnational corporations have the economies of production, purchasing and logistics on their side. They also have a sophisticated public relations and advertising expertise and are able to invest heavily in establishing their market image and identity. But they are not invincible. Economic size and technological superiority are not the only decisive elements in business. Other equally or more important elements are:

- the quality of labour by hand and by brain (it is just precisely in the new knowledge based high tech industries that human labour power is so significant);
- the quality of the social solidarity expressed by labour in its cooperative organizations, communities and associations, and
- the nature of the mission or objectives that the cooperatives adopt. These cannot be mobilized effectively without winning the members and employees commitment to cooperative values.

*Deregulation*

Deregulation has meant the end of protected markets and state subsidies for many cooperatives which found themselves for years controlled and manipulated by the state as instruments of social and economic policy. Such control led to bureaucratic practices within the cooperatives and authoritarian undemocratic relations with their so-called members. For the advocates of the free market, deregulation is the primary imperative in order to give freedom of choice to individuals. The strength of their position has been based on the negative experiences of many of the abuse of state power and the economic inefficiency that came in its wake. In Africa individual farmers have been given freedom to sell their produce to whom they wish and the abuses and misuse of the cooperative name by parastatal bodies in the recent past gives the genuine cooperative movement a serious image problem to overcome.

Free markets, however, can be problematic for individuals. Concentrations of economic power and the resulting dependency within free markets can create problems of monopolistic abuse of power, lack of fair access to the market and inefficiency. The problem therefore is how to free the market to be responsive to consumer choice without the same market becoming manipulated by those with the most resources at the expense of those with few resources. The experience of deregulation in the labour market, for example, suggests that without the countervailing power of association, free markets will simply lead to the poor getting poorer. Many have seen deregulation as the end for cooperatives but in fact it marks their true rationale. Cooperative associations exist to ensure the efficient operation of free markets by providing countervailing power and open access.

*Labour market deregulation*

The mobilization of the labour side of the equation is where the cooperative movement has been primarily concerned. Small businesses like farming are generally labour intensive activities. It is on the conditions of labour that the worst consequences of globalization become manifest. The absence of work, low pay and fragile, insecure employment erodes communities, families and cultures. Globalization has also led to unbalanced economic development creating over-dependence on single crop commodity prices and on services like tourism. Such unbalanced development creates further pressures on communities and the erosion of rural economies and cultures.

We have witnessed across the world the growing realization that the labour market has become divided between those jobs with relative security and continuity (sometimes referred to as core jobs) and a growing number of jobs where the relationship between employer and employed is more tenuous (sometime referred to in the literature as peripheral or atypical employment). The concept of the increasingly "flexible" use of labour by organizations has been the principal subject of discussion in the literature dealing with the restructuring of the labour market for the past decade.[25]

Whilst the extent and direction of managerial policy in capital-based companies towards the "peripheral" labour force is still contested, the growth in those forms of

[25] The concept of flexible internal and external labour markets was popularized by Atkinson. See John Atkinson, (Institute of Manpower Studies, University of Sussex) on the flexible use of labour in *Industrial Relations Review and Report*, 7 Aug. 1984: *Personnel Management*, Aug. 1984: *New Society*, Aug. 1985. For a critical appraisal see A. Pollert, *The Flexible Firm a Model in Search of Reality*, Warwick Papers in Industrial Relations, no.19, December 1987, Industrial Relations Unit, University of Warwick.

employment known as "atypical employment" continues.[26] The particular form the atypical employment takes may vary but is generally identified under one of the following categories: part-time; temporary; seasonal; agency: subcontracted self-employed; fixed term; and various forms of out-working. The culmination of these and other factors can produce frustrated aspirations and social division.

*Decline in state welfare provision*

As Government struggles to contain welfare provision costs, pressures on those in the most vulnerable segments of the labour market appear to be mounting.

The European Commission White Paper, targeted the high statutory charges on labour as a factor inhibiting economic recovery in Europe and as an explanation for the inferior rate of job creation in Europe to that of the United States and Japan.[27]

The recession itself has cut the real value of tax revenues and if the pressure is not resisted for reductions in statutory charges on labour then the possibility of a crisis in welfare funding becomes a reality. The European Commission's Green Paper referred to the "...... doubts as to Europe's ability to fund these systems into the future."[28] Diminishing welfare provisions can only have the effect of forcing more people onto an already overcrowded and unfavourable labour market unless alternative and more attractive cooperative modes of subsistence and income generation can be identified. Hunger, appalling housing conditions and unemployment or under-employment remain the position for some 1 billion people, around 30% of the world's labour force.[29]

*Demographic change and population transfer from countryside to town*

The expectation is that by the second decade of the 21st century the ratio of 65 year olds to those people in working age will have risen by as much as 50%. The

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[26] Hakim, Catherine: "Trends in the Flexible Workforce", *Employment Gazette,* Nov. 1987, pp. 549-560 and "Workforce Restructuring in Europe in the 1980s", in *International Journal of Labour Law and Industrial Relations,* University of Leicester, 1989, pp. 167-203, and Magiure, M. J. and Ashton, D. N.: *British Labour Market Trends,* Centre for Labour Market Studies, University of Leicester, 1988.

[27] Commission of the European Communities: *Growth, Competitiveness, Employment. The Challenges and Ways Forward into the 21st Century.* White Paper, Table 3, p. 138.

[28] Commission of the European Communities: *European Social Policy. Options for the Union,* Green Paper, 1993, p. 16.

[29] Lee, Eddy: "Employment in the Global Economy", *Development and Cooperation,* No. 1/1998 Jan/Feb, DSE, Frankfurt, pp. 11.

maintaining of existing levels of pension provision it is estimated might require the transfer of another 5% of GDP with more required for increased health service costs.[30]

Ageing populations, with closed village schools, is a feature of many of rural communities today. The young move in search of employment and a better life style to the urban centres often only to find poor employment, overcrowding, crime and homelessness. This separation of generations by geography and culture represents a particular danger that is not sufficiently discussed or recognized within cooperative circles. Without cross generation integration the past is lost to view and the lessons of the past have to be re-learned. Without the presence of physical frailty and vulnerability we lose the chance to serve, to recognize that not all life is about strength and being fastest and strongest but is also about wisdom, experience, gentleness, giving way, caring and protecting. Certainly each generation has differences and need their own space, but today this is being taken to damaging extremes that distorts and divides rather than develops society. The segregation of generations may well be a central factor in explaining the erosion of community.

*Erosion of community*

The pressures of inward migration into urban areas increases the problems of the urban community particularly in Africa, Asia and Latin America which are already severe due to high unemployment and inadequate housing and other infra-structures. The break-down of traditional family ties and the rising incidence of divorce and single parent families in Europe and America creates its own pressures on welfare provision as well as on the cohesion of local communities. The instability of the family (being the primary social group) undermines wider integration within local communities.

Nothing threatens the long term viability of the cooperative idea as does the erosion of community. Conversely nothing gives the cooperative organization a stronger point of differentiation from its competitors than its commitment to the maintaining of local community. The European Commission Green Papers call for the diversification of rural production and services is one that has relevance across the globe, not just in Europe. Multi-purpose cooperative businesses in Africa and other regions are in a unique position to respond to this call for diversification and development of the rural economy. They must respond in support of their

[30] Commission of the European Communities: *European Social Policy. Options for the Union* , op cit. p. 22.

communities, membership base and increased long term commercial viability.[31] With sparse rural populations it is unlikely that capital-based businesses will find sufficient returns to invest in many rural locations.

*Poor growth rates recorded by many cooperatives*

Some cooperative sectors have shown declining activity like the consumer societies whilst others like the credit unions continue to display increasing rates of growth. What nearly all these cooperatives have in common, however, is that they occupy those places in their respective industries logistics chain which provides the lowest levels of value added. Another feature apparent from a glance at the sectoral break down of the cooperative movement is that although some cooperatives have been able to establish themselves in areas of high value added and high growth activities like funeral services and tourism, generally cooperatives have been slow to develop in the fastest growing technologically based leisure, information, manufacturing and pharmaceutical sectors. Where they are represented it tends to be as small specialist sub contractors.

As a result cooperatives represent a declining share of the world's GDP and often experience lower rates of growth due to their occupying either the lowest value added links in the logistics chain or because they are occupying markets that have reached maturity or may even be in decline. Two other factors account for the poor capital growth performance by cooperatives. Firstly duplication of services and functions leaving organizations that are top heavy in management/administration and distribution functions but under-resourced in terms of their revenue generating activities. Too many primary societies and too many federal bodies have led to a waste of resources and a failure to achieve competitive economies of scale. Cooperatives are characterized by the absence to a substantial degree of entrepreneurial spirit or culture leading to missed opportunities and lack of innovation.

This lack of strategic development in response to fast growing new markets and the general lack of innovation is at first sight surprising. There are extensive networks of national and international federal and government bodies supporting cooperative development activities, including sectoral committees, communications and research committees etc. One might have expected more ideas to have been raised at the strategic level. As product and service innovation have been recognized by private sector firms as a strategic priority providing one of the principle basis for growth, it is odd that the cooperatives have so singularly failed to emulate this priority.

[31] ibid. p. 31.

One explanation may lie in the fact that most federal and development activity has been focused on membership and board education and development. The concern, almost fixation, with the implementation of democratic process and membership participation in the cooperative processes of governance has prevented development specialists recognizing the urgent technical and commercial realities that really sustain cooperatives in the marketplace.

Another important part of the explanation almost certainly lies in the misuse and control of cooperatives as tools for government programmes and the bureaucratic nature of the cooperatives own formal decision making structures. This has been particularly apparent in Africa and Eastern Europe. Such an institutional and regulatory environment has led to a cautious administrative culture that is innately hostile and generally unqualified to initiate innovation. Cooperation amongst cooperatives outside the credit union sector has never gone far towards the spreading of risks or investing in developing new technologies and products based on new technologies.

A third part of the explanation of the poverty of entrepreneurship in cooperatives lies in the obvious fact that their members are rarely entrepreneurs. Workers at whatever level of skill (and the average consumer is also from the same social strata) tend to want to conserve their skills and focus on what they know best. They have been used to seeing technological innovation at work as a threat rather than as an opportunity and it is hardly likely that cooperatives led by such people will be innovative in technological terms although they may well be in other ways.

*Lack of management development opportunities within the cooperative movement*

By focusing on governance and member/board education, the development debate has revolved around regulatory frameworks and institutional structural solutions to the problems of cooperative development. The bigger and more fundamental issues of general management, particularly executive management development and the questions of business strategy for cooperatives has been, however, a sorely neglected area. Mostly where these have been offered they have come in short course formats for executives already in post. Middle management development and fast track graduate development programmes have been generally rare occurrences. There has been an almost total lack of MBA level development opportunities tailored for the cooperative movement.

The model of management development as a gradual learning through service in often only one or a handful of cooperatives from bottom to the top, is not a development philosophy likely to encourage change or innovation. Cooperatives are having to learn that their community basis can limit the vision even if it strengthens the foundations of their business.

The theme that cooperative values must be understood as a management tool has not been generally recognized in the recent literature. The need to combine cooperative values with commercial disciplines has, nevertheless, been discussed widely over the last few years in a number of reports on cooperative management development. That effective management training must combine the cooperative and the commercial/organizational context if it is to succeed and been seen as credible was particularly emphasized in the report from U.S. Department of Agriculture. [32]

Some of the research also identified the need for cooperative management training to broaden its perspectives to allow for cross-fertilization between various cooperative sectors. "Bridges must be built between agricultural and other segments of our educational system, especially in the fields of business, economics and sociology. Collaborative research and curriculum development is required." [33] The current provision can be described as segmented and incomplete with a number of operators producing materials reaching out to specific segments of a total cooperative audience. As a result many audiences for cooperative management development are inadequately served by materials that rarely go beyond the introductory level.

The fragmented and, by and large, not validated programmes provided to cooperative management and members did not, it was felt in some reports, provide an adequate incentive for people to undertake cooperative management development.

The Swedish Cooperative Centre's report on training for cooperative leadership was the result of a series of evaluation seminars undertaken with African and Asian cooperative managers and development workers during the period September-October 1992.[34] The participants at these seminars identified a common stock of cooperative knowledge, skills and attitudes that would be essential to address in an international training programme for any identifiable group of cooperative leadership, whether professional and executive management, lay directors or government officers and development workers. This common stock of categories identified were as follows:

- The political, economic and social changes and developments effecting cooperatives, both international and domestic.
- Management information systems involving new technologies, management techniques, strategic planning and control.
- Leadership skills and attitudes.

[32] Department of Agriculture: *Cooperative Education - Task Force Final Report*, A.C.S. Service Report 35, July, 1993.

[33] ibid.

[34] Albinson, Folke: *Training for Cooperative Leadership*. A Study of SCC's International Cooperative Seminars, 1962-1983, Swedish Cooperative Centre, Stockholm, 1993.

- Cooperative values and principles.
- Gender sensitization.
- Protection of the natural environment.

The report concluded "in the context of new economic policies oriented towards the market economy, the need for greater emphasis on these aspects of the training programme should be stressed, ideally by combining and analyzing linkages between cooperative values, socio-economic objectives and competitive strengths of the cooperative. Priority should be given to issues and topics related to technical and commercial aspects of management."[35] This separation of cooperative values from commercial management is fairly typical of the approach in cooperative circles. In Chapter 2, I will try to show why it is a misguided and irrelevant approach for cooperatives competing in the modern market.

It was recognized in some of the literature that development agencies had not been particularly successful. Furthermore cooperative human resource development should be linked with vocational training programmes since cooperative enterprise could provide self-employment opportunities for the trained. It was also observed in one report that where desired, recognition should be given by Ministries of Education to diploma and degree courses in cooperative studies.[36]

A number of research reports have called for better criteria for evaluating the success of management training and development in terms of the economic success or failure of cooperative enterprises. In the research funded by the DTI undertaken by David Hall Partnership Ltd, lack of success within the cooperatives was found to be result of primarily four factors:

- no investment
- poor staff training
- insufficient sales and marketing effort, and
- low pay/higher staff turnover [37]

Another obvious reason for lack of innovation has been the high cost and high risks involved in product development that have put the idea outside the range of the average primary society. The Mondragon approach where primary cooperatives collaborated to provide technical training and research aimed at developing new

[35] ibid.

[36] ILO: *The Role of Human Resources Development in the Economic Viability, Efficient Management and Democratic Control of Cooperatives*, Report 2 of the Meeting of Experts on Cooperatives, ILO, Geneva, 29 March - 2 April 1993.

[37] United Kingdom Cooperative Council: *Public Policy and the Cooperative Enterprise*, UKCC, June 1992.

products and businesses has not been repeated elsewhere. There remains a reluctance to invest in management development on the part of the many smaller cooperative boards which may be based on a fear of managerialism.

The term "managerialism" as I use it in this survey simply means the control of the cooperative by full-time staff by virtue of their management position. As such, managerialism represents an abuse of power and subversion of cooperative values, processes and purpose. Protective of privilege, often with the collusion of elected boards who themselves depend on the patronage of the management for their position and allowances, managerialism is bureaucratic and non-participative in style. It is inherently conservative and hostile to innovation. It represses rather than leads and encourages membership. It operates on a clear distinction between cooperative and business activities taking no formal responsibility for the former nor recognizing any commercial advantage in cooperative values and ownership.

*The threat of managerialism*

The talk about the threat of increasing managerialism, which has been very much part of the background prompting the ICA review in 1992 and adoption of a new Cooperative Identity Statement in 1994, needs to be seen in two quite separate phenomenon. In terms of the Austrian experience written up by Brazada and Schediwy in their contribution to the set of papers compiled by CIRIEC International, 1996,[38] it has meant a management that has used its inside power to privatize the cooperatives and often enrich themselves in the process. They have succeeded because there remains little public understanding or sympathy for mutuality and the regulatory frameworks permitted them to do so quite legally. This also explains the demise of the largest building societies in the UK. The Cooperative Wholesale Society Ltd. (CWS Ltd.) was narrowly saved from such insider activity because of the illegal measures that were employed on that occasion.

The other aspect is the distance and lack of control members are able to exert over their management in the largest cooperatives. This trend was noted as far back as the ICA Congress of 1968. "Increasingly decision-making is entrusted to an experienced and professional managerial elite at the centre of the movement." [39] Thirty years has elapsed between the Congress warning on managerialism and the latest concerns expressed in some of the CIRIEC readings (see also Benoit Leviesque and Marie-

[38] Brazda, Johan and Schediwy, Robert: "The Legal Status of Cooperatives in Austria and the Developments in the Agricultural and Consumer Cooperative Sectors", in *Cooperatives. Markets. Cooperative Principles*, (ed.) J. L. Monzon Campos, R. Spear, A. Thomas and A. Zevi, Ciriec International, Leige, 1996, p. 50.

[39] Quoted in Book, Sven Ake: *Cooperative Values in a Changing World*, Report to the ICA Congress, Tokyo, October 1992, p. 95.

Clare Malo, "A New Desjardins in the Age of Globalization".[40] Still the focus is on how to strengthen membership control and supervision. In this regard, legal regulations and structural reforms continue to be emphasized. Management is still seen as essentially problematic and threatening. This is hardly surprising as there has been so little work undertaken to generate cooperative management development as a strategy to counteract the real threat of managerialism.

### *Conclusions*

Cooperatives in general need to restructure, re-invest, and innovate in terms of their traditional services, products and cultures to more closely match their identity statement and the free market environments that they are increasingly forced to operate within. They must innovate in particular in the quality of their member relations and in the levels of technology that they currently apply in their businesses. Many primary societies' boards need to have the courage to merge from relative strength now and not to hang on until forced to act under threat of bankruptcy. Finding appropriate merger partners or acquisitions and raising the necessary finance is a primary strategic response that cooperatives must adopt when confronting the current environment. The new environment cries out for cooperative solutions. The new environment cries out for a new, more professional cooperative management to replace managerialism and reach out to members to reaffirm cooperative purpose and implement cooperative solutions. If the movement does not develop the management to rise to the challenges, great opportunities for cooperative development will be lost.

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[40] See also Levesque, Benoit and Malo, Marie-Clare: "A new Desjardines in the age of globalisation, in the Agricultural and Consumer Cooperative Sectors", in *Cooperatives. Markets. Cooperative Principles*, (ed.) J. L. Monzon Campos, R. Spear, A. Thomas and A. Zevi, Ciriec International, Leige, 1996, pp. 193-195.

## Action points

1. Do not try to manage a cooperative, however small, without keeping up to date with the changing environment for the industry. Regularly research the supply chain for your industry and identify opportunities to extend your business into other links in the chain. The purpose is to position the cooperative to enable it to improve its rates of growth and profitability. If you are a very small cooperative you will need to raise this issue with your federal organization which should be called upon to make regular presentations on the question at quarterly or annual meetings.

2. Find out who represents your cooperative on the ICA sectoral meetings and insist they send reports of the meeting to your cooperative.

3. When you get the detailed information from the questions 1 and 2 above, communicate the information to your members in a way they will understand. Suggest actions to respond, listen to their views and comments and be prepared to adapt policies to be responsive to members' needs whilst arguing the case for change in terms of the prospective benefits to the membership.

4. Do not rely on in-house expertise but actively seek second opinions from outside experts. You do not have to follow their advice but it is useful to know what an outsider's perspective is concerning the viability of your management policies and strategies.

   Once you understand the bigger picture and its impact on your cooperative you will also understand the need for action on items 5 and 6 below concerning management development.

5. Identify the key employees who could benefit from advanced level management development. Demand that institutions of higher education act on the recommendations in Paragraph 38 of the report of the ILO Meeting of Experts on Cooperatives, Agenda item 6 which stated "Cooperative Human Resource Development should form part and parcel of general education and be promoted at all levels of the education system. It should be included in the curriculum of education institutions and it notes that cooperative studies should be offered at universities and colleges as part of the course of economics and business management...." [41]

6. Identify appropriate cooperative management development programmes and invest in developing staff through them.

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[41] ILO, op. cit.

# 2 Models of Management

## *Alternative concepts, styles and values explored*

*Chapter summary*

1. Although there are many adverse environmental factors hindering cooperative development, the most significant problem preventing cooperatives from responding successfully to the new deregulated markets is their failure to recognize and develop professional cooperative management.

2. The problem of managerialism, as the size of the cooperative increases, cannot be resolved by structural approaches or legislative regulation alone. The safest approach is to change the culture and values of the managers of cooperatives to ensure that the content as well as the form of cooperative values, processes and purposes match and are communicated to all stakeholders.

3. Cooperative values provide the basis for a new culture based approach to defining management's role within the cooperative.

4. Cooperatives must develop and empower their managers to be able to lead on the basis of cooperative values and purpose.

5. The old civil service model of cooperative management and the idea of the separation of commercial and social dimensions within the cooperative enterprise are inappropriate models which block cooperative application of the latest management methodologies.

6. Collective management of the direct worker control model is effective in micro scale craft and professional cooperatives but has no place in worker cooperatives in general or any other cooperative businesses.

7. The new formula is that managers lead and members govern. This formula requires a cooperative value-led management development programme based on a new understanding of management as leading a community of stakeholders on behalf of the cooperative membership.

8. Cooperative management presupposes different degrees of ownership. Stake holding covers different constituencies. Cooperatives must be seen essentially as associations of members and other stakeholders united by the seven principles of cooperative management.

① Pluralism
② Mutuality
③ Individual autonomy
④ Distributive justice
⑤ Natural justice
⑥ People-centredness
⑦ Multiple role of work[42]

*What is a cooperative manager? Managing on the basis of the ICA Statement on Cooperative Identity and cooperative purposes and values.*

I want to make two points clear at the outset of this chapter. The first point is that values are as much part of the range of tools or methodologies available to management as is cost accounting or budgeting. All businesses adopt values. It is a case of which values to emphasize depending on the type of business and the activity being engaged in. Being clear about our business values helps us build cohesion and improves communication and, perhaps most important of all, helps define key standards. The point about cooperatives is that they have some particularly strong values (in the sense of being universally approved of) which could be applied by management to make cooperatives more competitive in the marketplace.

The second point I must make is that although I certainly see values as an expression of our ethics and the basis of our morality, I do not subscribe to the idea that only one type of business or set of values is morally correct and ethical. Cooperatives do not have a monopoly on values and high ideals. They can and do fall from grace as quickly as any other organization. Most values that we expect to find in cooperative officers we should expect indeed demand to find everywhere. We are entitled to expect the highest standards of personal integrity from all managers in whatever walk of life they practice management. So honesty, transparency, fairness, and the highest standards of professional expertise in their chosen fields of management are a common requirement for all organizations. They are not distinctive to cooperatives.

The question really becomes one of understanding how certain values and principles enable us to articulate a specifically cooperative management philosophy and practice. One that enables and empowers cooperative management to lead and direct cooperative enterprises in the modern world. The question management requires an answer to is "Okay, so these are the values but in practical terms what is the purpose(s) that we are applying them to achieve?"

It is precisely here in terms of a statement of the primary overarching cooperative purpose that I believe we can provide such a framework for linking the values to the practice of cooperative management. Such an approach also provides cooperative

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[42] Davis, P. and Donaldson, J.: *Cooperative Management. A Philosophy for Business*, New Harmony Press, Cheltenham, 1998.

members with a clearer understanding of the general as well as the particular purposes of cooperatives. It gives members a criteria for evaluating management's cooperative performance along side their commercial performance. Thus there is improved potential for the members' involvement and democratic control of their cooperative enterprise.

The common economic and social need which runs throughout all cooperative enterprise - the purpose for cooperation itself - is to redress the increasing imbalance in market power in those markets upon which their members rely. The resources they mobilize are not for the purpose of capital growth as an end, but for the end of the delivery or acquisition for members of products and services. This was the case starting with Owen, King and Raiffeisen and as we consider the continuing polarization of economic power within the global economy today we can see that this overarching purpose is still valid. It may be that the cooperative is a worker cooperative bringing people together to create secure and satisfying employment that cannot be found on the open labour market, or that the cooperative has members who are small farmers seeking to get greater leverage in the sale of their produce to an increasingly concentrated and powerful distribution system. The cooperative could be a group of people who are unable to get sensible credit arrangements or who are unable to purchase or acquire housing at a reasonable price or for rent through the existing market system. The cooperative might be one of consumers who are anxious to be able to purchase at the right price products meeting ethical as well as other criteria. These cooperators all have in common their individual vulnerability and powerlessness in the marketplace and the inadequacy of their personal wealth to meet their needs for subsistence and welfare.

Secondly, for association to be practiced people must first and foremost be encouraged to act together. It is this acting together in unity that is the essence of association. All successful cooperatives, therefore, unite and involve their members in an economic and social community. Thirdly, cooperatives exist to promote the culture of justice and democracy in the economic and social community. From the earliest times cooperation has also been about *how* to exercise power and *how* to live. Owen and other founders recognized that cooperative associations would not work without a change in the culture of their members. Hence the concentration on education as such an important component in the cooperative programme. Morality was always an important component in the programme of cooperative education. In the context of mutual association empowerment can only be experienced on the basis of unity and fraternity. The unity and fraternity that lies at the very heart of the cooperative purpose can only be fully experienced if underpinned by the concept of community. Cooperative management therefore is about relationship management in a big way because:

- cooperative purpose requires association and,

- association cannot be managed without fraternal relationships, unity of vision, and commitment and motivation by the members. We define cooperative management below.

*Cooperative management*

"Cooperative management is conducted by men and women responsible for the stewardship of the cooperative community, values and assets. They provide leadership and policy development options for the cooperative association based upon professional training and cooperative vocation and service. Cooperative management is that part of the cooperative community professionally engaged to support the whole cooperative membership in the achievement of the cooperative purpose."

Cooperative management is based not on the exercise of authority but by encouraging involvement and participation as part of the cooperative community itself. Cooperative managers' professional practice utilizes the same methodologies as all management. It is the values and purposes to which these methodologies are directed to realizing that is the cooperative difference. Their prime function is to provide cooperative leadership for the lay-membership and its elected leaders in the development of policies and strategies that will empower the association in pursuit of the realization of the cooperative purpose.

It is by the incorporation of cooperative management as part of our cooperative community and as representing an important principle of cooperation itself that we can work out the tension increasingly produced between management and democracy within the cooperative enterprise. *The establishment of a principle of cooperative management enables the cooperative enterprise to be managed professionally and cooperatively in such a way that member involvement and democracy will remain key aspects of cooperative practice. By having the principle of cooperative management we also lay the basis for a criteria upon which cooperative management training and development can be judged and a criterion by which management performance in the cooperative context can itself be judged.* The exercise of ultimate control by the lay-membership can only be effective when we have in place a clear and undisputed cooperative purpose giving members a clear criteria by which to judge cooperative management performance.

At the same time, without clear criteria, we cannot expect cooperative management itself to rise to the challenges of the 21st century and to be confident in the exercise of their leadership roles and responsibilities within the cooperative enterprise. It is not just the membership that we need to empower as we face the challenges of the 21st century. We must also empower cooperative management by giving it the value base and the principles upon which to develop its practice, and the confidence to know how it can act and why it is acting. For there is a clear ethical basis for the cooperative purpose as I have defined it above. Firstly, in terms of providing for the individual's independence from the rich and powerful and, secondly, in the provision of distributive justice through the countervailing market power of cooperative associations. The statement of cooperative management principles will, I am certain, encourage many top quality professional managers to enter cooperative service. Cooperative management can provide personal career advancement. In addition it can also provide the satisfaction of leading a community whose purpose is to improve the quality of life of its members and the wider society.

Cooperative management must, therefore, be a profession in the truest and best sense of the word. There is no profession worth the name that is not based on clear ethical principles and values. These include the value of service to those to whom the profession is responsible, whether these are patients, business clients, litigants or in our case cooperative members. Cooperation to succeed needs the best management. We need a confident management and one that can be trusted with the many complex and difficult decisions that require their specific professional expertise. The growing dependency on managerial knowledge and expertise by lay-members must be accompanied by a growth in the professional and ethical standards of cooperative management.

Modern cooperatives need a management leading from the front, committed to the realization of the cooperative purpose, guided by cooperative values and principles and, in partnership with the elected directors, ultimately answerable to an informed and involved membership. It was the late Will Watkins who wrote that for cooperatives the principle of unity is more important than democracy.[43]

Davis and Donaldson (1998) have argued that much of what is "cooperative" in the broadest sense can be applied to general management. Indeed they argue that general management needs some human-centred values based on stakeholder based management philosophies in order to humanize work and the operating of the marketplace. They also argued that pluralism in the marketplace is a prerequisite to its effectiveness and that cooperatives are important guarantors of pluralism in the marketplace. Below I suggest how the seven principles might be applied in the cooperative context. Management in both capital and membership-based organizations are, I believe, starting to feel their way towards the concept of a human-centred value-based management. No doubt there will be successes and failures in both sectors but I am confident that the membership-based structure will offer least resistance to the changes a human-centred value-based management culture will bring. Ideas concerning customer-led quality, human resource management and

[43] Watkins, W. P.: *Cooperative Principles Today and Tomorrow,* Holyoak Books, Manchester, 1986, p. 19.

stakeholder and relationship management that are common currency in today's management literature are full of human-centred values.[44]

**Fig. 1: The seven principles of cooperative management** [45]

| *In general* | *In the cooperative* |
|---|---|
| **Pluralism**<br>Managing on behalf of all stakeholder interests. | Members will find it in their interests to recognize other stakeholders. Under managerialism members were ignored or subsumed under customers. |
| **Mutuality**<br>Recognition of need for shared benefits. | Because return on capital is not the primary criterion for membership in a cooperative, mutuality between stakeholders will be easier to establish as one reward does not have to be achieved at the expense of any other. |
| **Individual autonomy**<br>Respect for persons and devolution of responsibility. | The same as for the general organization but in cooperative terms it can also underline both the need for the organization itself to be defended from outside control and the autonomy of the individual member. |
| **Distributive justice**<br>A non exploitative sharing of resources. | The same for cooperatives but easier to carry through in their case due to their ownership structure. |
| **Natural justice**<br>The right to independent appeals procedures and the application of fair rules and processes. | Just the same, but the cooperative ownership structure and culture of accountability makes it easier to achieve. |

[44] Stakeholder has been described as practiced by private sector management as "...a range of different stakeholder interests such as shareholders, management, employee groups, government, the unions and the community. Management has the upper hand but recognizes the importance of trade-offs between the different interests..." Sparrow, P. and Hiltrop Jean-M.: *European Human Resource Management in Transition*, Prentice Hall, 1994, p. 12. This concept when led by cooperative values becomes "....a management that is committed to ensuring fairness and equity of treatment for all groups with interests in the organization they are managing."

[45] Taken and adapted from: Davis P. and Donaldson J.: "Seven Principles for Cooperative Management", Chap. 5, *Cooperative Management. A philosophy for business*, New Harmony Press, Cheltenham, 1998, pp. 85-102.

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|---|---|
| **People-centeredness**<br>Recognizing that people whether employees suppliers, or customers are the subject not the object of business. | The cooperative ownership structure articulates this principle by being membership based. |
| **Multiple role of work and labour**<br>Work influences social status, consumption patterns and the whole structure of relationships in society as a whole. This provides along with people centeredness the additional rationale for corporate social responsibility | Cooperatives exemplify this principle by their combination of the social and the commercial. They mobilize the labour of small farmers, and workers both as employees and as consumers. Their principle of community helps to provide a holistic view of their customers, workers and suppliers. |

*Reviewing the cooperative management and organizational development literature*

Paradoxically, however, it is the cooperatives themselves that have largely failed to utilize their human-centred values dynamically in their communications with their members, customers and employees. The reason for this is I believe because the movement has paid little attention to what its values mean for management.[46] The cooperative literature betrays this in its emphasis on democratic responsibility for policy and managerial responsibility for the execution of policy.

The idea of the board of a cooperative formulating policy and management executing policy is completely unrealistic for a cooperative business seeking to be competitive and responsive to modern market conditions. This false "ideological" view of the practice of cooperative management has led to the adoption of inappropriate managerial ideologies on the part of management in cooperative societies. The result is secrecy and closure to members of the real decision making processes within their cooperative. The emphasis should be on managerial accountability and member participation. This approach could avoid a defensive and secretive management culture that leaves members without real influence and managers without vital information concerning members needs. This "civil service" view of management's role in the cooperative makes for a divided house of mutual suspicion, not a united

[46] Davis P. and Donaldson J.: Chapter 6 "Case Study" in *Cooperative Management. A Philosophy for Business*. New Harmony Press, Cheltenham, 1998, pp. 116-119, provides an illustration of what can be achieved in the remarkable growth rates experienced by the Cooperative Bank's successful experiment with "ethical banking".

community of labour serving the needs of the wider society to the mutual benefit of all.

The civil service approach has been underpinned by another false perspective concerning the supposed distinction between the cooperative's social and economic roles which gives an unwarranted significance to this distinction. Draheims' (1955) concept of the "double nature" of cooperatives sums up this approach exactly, "...cooperatives are characterized by ....... 'the association of persons' with external economic components and social features on the one hand, and the 'economic undertaking' to be managed like all other private enterprises in the market economy on the other hand." [47] Two recent publications, Edgar Parnell (1995) and Isao Takamura (1995), also reflect this long established view of a polarity between social and commercial aspects of the cooperative. Cooperatives are seen as being organizations formed as a result of the market economy as with capital-based, investor-owned organizations, but distinguished by their members being the cardinal stakeholders in the organization. This makes them people-centred rather than capital-centred businesses. The problem for cooperatives is identified as:

- the loss of focus on the provision of benefits to members and,
- the loss of control by the cardinal stakeholder group (members defined by the functional services provided by the cooperative, i.e. consumers, farmers etc.) to a variety of other stakeholders or interest groups. (Parnell, 1995) There is a lot of truth in this as in the further proposition, to some extent prompting the recent analysis of cooperative identity by the International Cooperative Alliance (ICA), that cooperatives lack focus and clarity as to their objectives.

A further proposition to be found in this literature that cooperatives be defined by their objectives or purpose is usually to be read in the narrow sense of immediate business activities rather than cooperative purpose as I defined it in chapter 1.[48] This lack of focus it is suggested by these authors is due to over reliance on cooperative principles. Some writers insist that it is "benefits to members" that provides the core rationale for cooperatives and are the touchstone for defining cooperative purpose.[49] This may not, however, be as clear cut as it is presented. If we take an example from a UK consumer cooperative, the need for the right goods at the right price at the right

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[47] Dülfer, Eberhard: "A system Approach to Cooperatives" in *Cooperatives Today*, ICA, Geneva, 1986, p. 132. Prof. Dülfers quote is drawn from Draheim G.: *Die Genossenschaft als Unterehmertyp*, Goettingen, 1955, p. 18.

[48] Davis, Peter: op cit. *Cooperative Management and Cooperative Purpose: Values, Principles and Objectives for Cooperatives into the 21st Century.*

[49] Parnell, Edgar: *Reinventing the Cooperative. Enterprises for the 21st Century*, Plunkett Foundation for Cooperative Studies, Oxford, 1995, p. 15.

time is not the question. What are the right goods and what is the right price in the members interest? Is it the cheapest, the one least environmentally damaging, the one with additional features? What about products the members have never heard of, fulfilling needs they didn't know they had? How are we to determine appropriate benefits without discussing the role of marketing and market research in the context of a membership-based organization?

I have, however, a more fundamental objection to this formulation of cooperative purpose. Benefits to members is too general and actually can be completely unrelated to the notion of cooperation at all. This point has been recognized in parts of the movement, otherwise they would not along with many others, seek to restrict the rights of members to dispose of the cooperatives assets in any way they might wish to. It is, of course, right to suggest restrictions on what any particular group of members may wish to do with their society and its assets. This is because cooperatives are not just about individual membership and the benefits of membership in abstraction. *Cooperatives are about the benefits of membership in association*. The association's purpose is to provide market leverage and access to resources (including information) that would not be otherwise readily available to the individuals who join. Without this cooperative leverage they would remain at best disadvantaged, and at worst poor and excluded. This applies to all sectors and regions of cooperative activity and to all classes of persons who form cooperatives whether poor or middle class or from the small business sector.

Thus social justice and community are central to an understanding of cooperative purpose and in understanding and evaluating the propriety of those activities, products and services providing benefits to members. It is upon the values and principles that emerge from this macro-level analysis of social need that the truly distinctive cooperative "framework for rules of behaviour" can be established.

Specific cooperative activities provide employment, fair priced good quality products, decent housing, cheap credit and other financial services, fair priced utilities, fishing boats and many other specific goods and services including education. It is the overarching macro-level purpose, however, of social justice through market leverage and the common strategy and end of community building that has the potential to unite all cooperatives into one socio-economic movement. This movement is not about delivering this or that benefit but about mobilizing economic and social resources to deliver economic and social justice and destroy dependency in the global marketplace. I do not disagree with those who insist that cooperatives must produce benefits to members. I do urge, however, that we need to understand very clearly what the nature of the benefits are and how they are to be achieved within the cooperative context. In the narrow understanding of this formulation of "benefits to members" there is the danger of parochialism and materialism leading to the fragmentation and dissipation of cooperative assets. All the competitive pressures today require us to conserve, accumulate and collaborate in order to achieve the required critical mass for effective participation in the marketplace.

It is when traditional cooperative writers discuss the importance of establishing clear definitions and divisions of labour within cooperative organization that their analysis conforms most closely to the "double nature" model of cooperatives. It is in the areas of leadership and corporate governance within cooperatives that their analysis most closely conforms to the civil service view of management. The civil service model holds that the elected board of directors is exclusively responsible for the direction and leadership at the highest level of the cooperative. It has been rightly pointed out that leadership can be exercised in many different contexts and levels within organizations. This emphasis, however, on the distinction between primary leadership (who develops the plans of action) and secondary leadership (required to lead those who organize the delivery of cooperative services) is misguided.[50] It reduces management to business administration. These writers' solution to the central problem of cooperative organization today - which is how to develop professional leadership of cooperative businesses operating in increasingly complex business environments - is structural rather than cultural.

This concentration on the division of functions between board and management leaves management downgraded to a civil servants' role. It has been suggested that the problem of technical incompetence in lay boards may be resolved by placing another tier of experts between them and the managers. One writer has recently gone further to recommend the members are down graded to an elected members' council which appoints really qualified people to act as directors to manage the business on the members' behalf.[51] This additional layer of policy making is unlikely to be a solution that recommends itself to many cooperative managers or members. It carries real risks of further fragmentation and conflict within cooperative organization. Unity and a sense of involvement is the most essential grounding for successful association. This requires that effective leadership be brought to bear on the development of the organizational and management culture.

Why can we not accept that the managers are the experts and they need to be as close to the membership as possible? This is sometimes acknowledged but traditional cooperative approaches do not seem prepared to give managers the position of responsibility for the decisions. Managers cannot be leaders but are left rather as expert advisors whose advice the Board should pay attention to. This formulation of the division is between management in a "broad sense" conducted by the Board and in a "narrow sense" by the Executive Board of management.[52] In times of change

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[50] ibid., p. 54.

[51] ibid., p. 103.

[52] Takamura, Isao: *Principles of Cooperative Management*, Co-op Publishing Company Ltd., 1993, p. 82.

".....the top management of the cooperative must always have the ability and will to introduce reform from within....."[53] The writer recognizes the qualities required by management but appears unwilling to adopt the organizational culture and values necessary to ensure a management that will have the authority and ability to display such qualities. Cooperative managers are required to exert leadership and judgement and in addition "Cooperative managers, are....not only required to settle business problems but are also expected to have a sense of humanity and a fully developed character."[54]

Cooperative management clearly needs high ethical standards but it also needs an analysis of the needs and values of society as they affect the cooperative customers and members. These ethical standards must not remain the preserve of the top few but be reflected in the culture, relationships and behaviour of the whole organization and be communicated as such to the outside world. It is not enough to recognize the human-centred basis of cooperatives and the need for ethical values to inform management practice. The membership must not be viewed in the abstract simply as owners but rather as owners integrated into the wider society in the context of the marketplace.

Management's relationship cannot be based on separation from the membership who exercise formal control through a directly elected lay board. Rather management needs to form an integrated leadership of the community of labour (members) by being full members of the board. The social and economic dimensions are inextricably linked. Dülfer comes closest to recognizing the importance for management to link the social integration of the individual members to the cooperatives' commercial activity with his notion of "cooperative combine" which for him links the cooperative organizations' decision making to that of their members' household economies.[55] Unfortunately this insight has not hitherto developed as a focus for management decision making and the foundation for the legitimate exercise of leadership by management within the cooperative community.

This is where I believe the real solution lies. Directly elected boards of lay members must be the right grounding for cooperative governance. Boards need a mix of skills, however, and the co-option principle used by many company boards should re-enforce the elected board by the inclusion of two or three of the top management team as full board members including the CEO. Lay leadership alone can only exceptionally provide the necessary skills to lead a modern cooperative society. Cooperatives need cooperative managers who recognize that the cooperative enterprise must be managed as a whole without the totally false distinction between

[53] ibid., p. 85.

[54] ibid., p. 86.

[55] Dülfer, Eberhard, op cit., p. 134.

the business and the social "sides". We desperately need managers who have the qualities to take responsibility for leading and building the whole community of members and employees into a social and value-based business seeking the fulfilment of the cooperative purpose. Value-based management does not replace one member, one vote democracy in the cooperative. What it does is to demand that the professional responsibility for the quality of that democratic content is management's. Management has the responsibility to consult, survey and research members' needs and the needs of the society to which they all belong. Management has the responsibility to lead and develop a united membership. The members will always have the right to challenge and dismiss a management that acts unprofessionally or is just plain ineffectual. As I have suggested elsewhere members will also have much clearer criteria for making judgements. The latest market research, consultative methods and a member/customer oriented culture can provide more real information and involvement than the formalistic processes that forms much of the content of cooperative democracy today.[56]

Thus value-based management is the essential goal for cooperative management and organizational development today. Value-based management will not be unique to the cooperative movement but the cooperative movement is uniquely placed to take full advantage of its insights and contemporary relevance as it goes forward into the next century.

I have argued up to now within the framework of essentially two broad approaches. Firstly, there are those who tend to see management primarily as at the service of an elected lay leadership made up of members who determine policy for management to administer. This approach emphasizes the need to control or police management. As a result it concentrates on procedure, governance and direct member led democracy determining decision making. Secondly, there are those who argue, as I have, that culture is more significant than process in ensuring the direction and quality of cooperative activities. They believe that in a modern cooperative movement the lay board must be led by a value-based management rooted in the cooperative heritage. This, it is argued, provides the essential quality of leadership and innovation necessary for the survival of cooperatives into the next century. Managerialism is unlikely to be defeated by governance and legislation alone. The best antidote lies in developing managers with values and purposes which match those of the cooperative identity statement and whose managerial methodologies best reflect those values.

However, this issue takes on a different emphasis when considered from the perspective of the productive cooperative where a third approach to the concept of cooperative management can be identified. This approach sees cooperative

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[56] Davis, Peter: op cit.: *Cooperative Management and Cooperative Purpose: Values, Principles and Objectives for Cooperatives into the 21st Century*, p. 14.

management as a case of direct collective worker control of decision making. Any management hierarchy is seen simply as a co-ordinating mechanism only necessary in larger scale cooperatives in order to keep workplace based collective decision making on a common track. This is the worker control model of cooperative management. This approach can be illustrated from one training manual produced by the Industrial Common Ownership Movement (ICOM) for the British Worker Cooperative Movement. In the ICOM manual management is depicted at one stage as being purely a service function to ensure the cohesion of the independent self managed operational units and, according to the authors, management ......"will not be concerned with the internal matters within the operational units".[57]

Such a view of the internal autonomy of the work group ignores technology and the need to determine acceptable levels of unit costs in terms of the organization and its competitive position. It also either assumes a static position for the configuration of operations or that the operating unit itself will be in a position to transform itself even to the point of self elimination if necessary. The ideology of micro-level work group autonomy will more often than not only frustrate the all important level of associational solidarity of the people in the wider community. Such solidarity can only be achieved by a management culture based on an understanding of the cooperative purpose and the adoption of cooperative values.

Devolved responsibility to the work group, and the attendant benefits of flexibility, is not the same as unit level autonomy within organizations. Autonomous work groups that are really autonomous in the worker control approach run the risk of transferring "them and us" attitudes across lines of demarcation rather than hierarchical lines of managerial authority. Ponderous decision making is the outcome of trying to run large-scale business on a worker control model. In the "Viable Systems" model in the ICOM training manual there are five separate levels to run the cooperative attempts at democratic management on the worker control approach.[58] The fifth level, concerned with the development of policy, suggested that policy was something in a large cooperative that could be determined at a yearly meeting of members as opposed to a traditional company where it was suggested that shareholders or owners made policy.[59]

In fact in both cases, it is professional management that really determines policies that, if successful, will get the support of the shareholders whether capital based or member based. This has been understood ever since the managerial revolution thesis was first proposed between the wars, and it has only been seriously challenged by the

[57] Walker, Jon: "The Viable Systems Model Pack", *Strategic Management in the Social Economy*, Industrial Common Ownership Movement, 1991, p. 41.

[58] ibid., p. 33.

[59] ibid., pp. 56-57.

work of Zeitling and Scott.[60] In neither of these two cases do the authors suggest, however, that the share holders make policy but they do argue that ownership provides the power and sanction to depose a poor management that does not operate in the shareholders' interests. This is I believe practically the same situation for shareholders and membership-based organizations.

An example of the weakness in practice of the worker control approach for larger scale cooperatives may be demonstrated by the unwillingness of the British wholefood cooperatives to cooperate. This decision by a significant segment of the wholefood wholesale cooperatives not to participate in a national marketing strategy was not based on any commercial or cooperative criteria but on parochial and personal issues.[61] Those that did attempt to collaborate in fact lacked the expertise and the authority to really get decisions taken quickly and move them through to the marketplace.[62] This episode illustrates the weaknesses of organizations that interpret democracy and cooperation as an exercise in direct democracy. Instead cooperative democracy should be understood as a macro-level activity embracing the whole association of labour by hand and brain in the process of sustainable wealth creation and consumption. Competitiveness through responsiveness to and unity and solidarity within the association requires an associational level participation in the development of goals and policies not possible if the level of the work group is given autonomy. A cooperative line management that is genuinely based on cooperative values and committed to cooperative purpose is the only way such a membership-based organization that is aiming to achieve economies of scale can be mobilized, coordinated and led.

Such a structure does not preclude worker involvement, it rather establishes the conditions for such involvement in mutual cooperation with the other stakeholders both within the association and those outside that are effected by its activities. Direct democratic control by members is essential for maintaining accountability and ownership but it can never be a vehicle for the determination of business policy even though its inputs can be crucial in the process of defining that policy. Democracy is one and only one aspect of the cooperative identity. It must never be placed above or in place of cooperative purposes. It is the totality of principles and values that determine Cooperative Identity. A professional value-based management committed

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[60] See Zeitlin, M.: "Corporate Ownership and Control', *American Journal of Sociology*,79,5. (1974), and Scott, J.: "Ownership and Employment Control", in *Employment in Britain* (ed.) Gallie, D., Blackwell, (1988), pp. 437-464.

[61] Decision-making power lies with the boards of directors predominantly bank or industrial executives in the large capitalist concerns. According to Scott, the managerialist, these must be replaced by a more sophisticated understanding of the constellation of interests that collectively constrain and influence the exercise of managerial power. Scott, J.:"Ownership and Employment Control", in *Employment in Britain*, op cit., pp. 452-453 and 461-462.

[62] Walker, op. cit., p. 97.

to the achievement of the overall cooperative purpose and accountable to the direct membership and the wider movement may provide clearer direction for the cooperative association and its business(s). Less experienced and educated people are more likely to be led by narrowly focused concerns within the workplace or other parochial interests.

Self management skills including "cooperative working" through group based processes for decision making for small scale artisan and service based businesses are of course relevant and important for the success of those worker cooperatives who choose to stay small scale. Such cooperatives may well in doing so provide a better service to customers and a good quality of life for members.[63] Small group decision making processes are important to enable boards to work effectively. The problem is that many writers and trainers in the cooperative tradition appear to expect direct or near direct control to be possible at whatever the size and complexity of the cooperative business. Some of the literature identified with the worker control model of cooperative management does appeal to involvement strategies within mainstream management.[64] Participatory management styles, however, can operate within organizations with vastly different ownership structures. This does not generally produce the objective of collective management in the "workers control" tradition. Process based strategies involving consultative and negotiating machinery may simply re-enforce a "them and us" attitude and may in some management eyes leave the cooperative at a competitive disadvantage in terms of shop floor resistance to change, labour productivity and quality.

Much of the decision making that is central to the direction of the organization is not encompassed by the tasks undertaken on the shop floor. It was an article of faith with both Taylor and Mayo that the shop floor workers needed the expertise of management. Devolution of management assumes that the relevant information is not only available to operational units on the shop floor but that the workers can correctly and dispassionately evaluate this information. As Michael Jones, a long standing advocate of worker ownership and involvement, puts it:

> "It is of course essential for any cooperative to set parameters regarding the types of decisions in which different categories of workers could, and should, be involved. Especially in larger worker owned businesses it is essential that managers are allowed to make management decisions with a minimum of input if they are of a

[63] Davis, Peter: *Cooperation Between Cooperatives*, MSC funded Consultants Report to the National Federation of Wholefood Cooperatives, April 1987, (unpublished).

[64] Baldacchino, Godfrey, Rizzo, Saviour and Zammit, Edward L. (ed.): *Cooperative Ways of Working*, Workers Participation Development Centre, University of Malta, 1994, pp. 1-5.

purely business nature".[65]

Whilst it cannot be seriously disputed that this is the case as far as the core economy is concerned at least, the problem from the worker perspective has been the question of whether management would ever use their expertise in the best interests of labour when they were paid to serve capital in the shape of the share-holders. This is not, however, to argue that in large scale cooperatives we must rely on standard management as seen in the capital-based business world. Without the right management culture changing to worker ownership by itself can be problematic. We need a change in culture where management and shop floor are seen as all part of the same community of interests. It is the shared values arising from the ownership structure, cooperative purpose and cooperative community that enables real collaboration and mutual empowerment leading to the realization of the objectives of solidarity both within and without the cooperative.

Without this adoption of value-based management it is doubtful whether rules and principles concerning participation in management like those adopted and advocated by the Mondragon Cooperative Group including member social and professional skill training will increase the level of involvement or identity with the goals of the cooperative felt by the shop floor member. These measures are equally unlikely to enable the business to survive let alone prosper if the management itself has been left in the hands of people untrained and unsympathetic to the cooperative purpose.[66]

What the worker control approach appears to accept as given, is a socially static view of management as a segment of intellectual labour essentially hostile to the shop floor and to real cooperative purposes. Such a view does not appear able to detach management as intellectual labour from the context and values of private ownership of capital. Because capital-based organizations dominate the economy they have dominated the values and content of management development. Managers in a membership-based organization have the potential to operate as leading the association of labour as a whole and indeed being recognized as part of that association.

What is needed are management development programmes that enable managers to provide the leadership, direction and innovation that labour in all its manifestations so desperately needs. By labour I include the activities of managers, small family business and self employed, those engaged in family based domestic activity, farmers and fisherfolk, as well as industrial and service workers, in the processes of creation and consumption of goods and services. Such a view of management as not just intellectual labour but as the leadership of labour can only arise based on values and

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[65] Jones, M. and Bader, S.: "A Viable Form of Workplace Democracy," ibid., p. 173.

[66] Lucas: "The Mondragon Group as a case of Industrial Democracy", ibid., pp. 195-199.

purposes derived from the cooperative programme and operated within the cooperative context. This clearly requires a specific cooperative management culture and values to inform the content of cooperative management development.

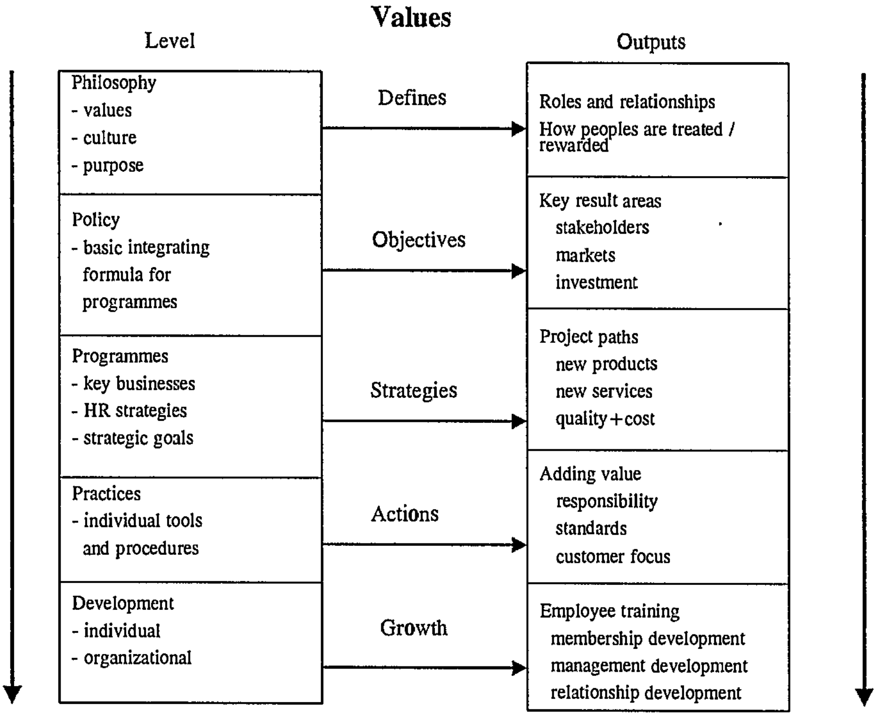
In practice it is neither board nor workers in large cooperatives that take policy decisions rather it is professional management. Under the conditions of the continuing pretense of board control an often secretive and generally cynical style of management develops with its counter point in a suspicious and resentful board. Larger cooperatives find it harder to recruit from within to fill the top ranks and the pool of available experience outside in other cooperatives is insufficient to ensure a manager sympathetic to cooperative values.

The idea of managers being not cooperators but "retailers" or "bankers" or "marketing people" or "finance people" becomes established as members and customers become a formal distinction, and a management goes about running the business like any other whilst someone else, probably with little status within the organization looks after the members and the "social side". Within no time managerialism is established. Despite the veneer of efficiency, the cooperative purpose is misunderstood, its trading advantages thrown away and the business becomes hard to distinguish from its rivals. In some cases the rivals end up acting more cooperatively than the cooperative does.

The values of the capital-based market effectively inform the organizational culture of the cooperative as the professional management have little opportunity to develop their understanding of what it is they are managing. As Fig. 1 suggests values affect all businesses but different forms of ownership and different purposes and different values will produce very different trading and business policies, different staff and member relations, and different supplier relations. As cooperatives must grow or face becoming marginalized or extinct, the threat of managerialism outlined in Chapter 1 remains real.

The existing models of cooperative management based on civil service approaches or ideas of collectivism or the provision of supervisory and legal safeguards are unlikely to prevent managerialism spreading within the cooperatives. Nor can we simply leave this to the integrity of individual cooperative managers or the vigilance of lay directors. There probably is no final and complete antidote to managerialism, defined as a bureaucratic slippage of vitality and purpose into routinization and professionalization. Recruiting people with the right skills, experience and values mix can help to shake things up and keep cooperatives questioning and testing their relevance to members and their communities. If there is no pool of career managers developed who are sympathetic to the cooperative identity how can such recruitment take place? If cooperatives don't invest in providing for a cooperative management cadre with a clear sense of cooperative identity, it is unlikely that the cooperatives themselves will retain their sense of identity for very long.

**Fig. 2: Value-led management**




Values should not be seen as some vague statement of little consequence for the reality of management Fig. 2 illustrates the various roles of values at different stages in the process of management. Firstly, they act like signposts directing the organization's definition of its standards of behaviour towards people: Customers, members, employees, suppliers, competitors, other cooperatives and the wider community. Secondly values and purpose leads to the evolution of policy. Policy provides the definition of the cooperatives strategic objectives in terms of the organization and its key stakeholders, markets and investment priorities.

Value-led policies generate in their turn programmes whose terms of reference implement strategies for the development of products, services and markets within customer determined quality standards and management determined cost parameters. Organizations want their individual employees and suppliers to accept responsibility, work to recognized standards of performance and to do so with a constant focus on customer satisfaction. This does not occur by itself. It is the result of shared values and a common culture that is articulated in the way the organization treats and rewards its employees and suppliers and focuses on customer satisfaction. Material rewards and conditions are important but they are not the engine that drives a motivated employee or supplier to excellence. It is the legitimacy of the purpose, the satisfaction of working towards shared values and the social recognition by management, by peers and by customers and the wider community that motivates the individual.

Achieving a highly motivated state is one thing maintaining it in times or turbulence and uncertainty is another. The way to ensure suppliers and employees are prepared for change and able to implement the changes needed when they are needed, is by training and development.

Innovation takes place when employees and suppliers are up to date, aware of the latest developments and self confident as a result of training and development.

*Conclusions*

Human-centred, value-led management cannot just evolve from thin air. It requires committed top level management leading a united and supporting board of lay directors. That commitment will not be achieved unless a clear cut case can be made to demonstrate the significance and the viability of the values and purposes being proposed in terms of competitive advantage and membership development.

Cooperatives need a new breed of manager and a new breed of lay director with the courage to appoint them. Cooperatives need their managers to be crusaders with the desire and ability to communicate values and lead according to those values. They need to be people that can accept challenging environments, break through organizational and institutional rigidities and motivate employees. Cooperative managers must lead the cooperatives membership by responding to their needs and encouraging them to recognize and identify with their cooperative association.

Cooperative managers need to accept the disciplines of the marketplace without accepting the values and purposes that dominate it. They must recognize members' real interests are best served by serving the interests of the whole community of stakeholders. They must in the process ensure that all stakeholders linked to the cooperative association are committed to serving its members needs. The new cooperative manager will be an innovative expert in change management. But one who is committed to developing a strategy in pursuit of realizing the overall values and purpose of the cooperative.

# Action points

1. Open discussions with the board and executive management concerning board/management relationships and the question of leadership.
2. Raise the formula "managers lead and members govern" as a basis for a new understanding of the respective roles of professional management and lay directors in the management of the cooperative.
3. Adopt the Statement on Cooperative Identity and devise some articles of cooperative management to empower and unite the main board and senior managers.
4. You could start with the statement of cooperative management and the seven values of cooperative management provided in this chapter. Does this formula provide the basic articles or do they need adaptation to your specific context?
5. Hold consultations concerning the adoption of the identity statement and the seven management values with the membership. In particular ask them how well they feel the cooperative matches up to the ideal as stated in the identity statement.

# PART TWO

## Innovation through Quality

*Cooperative values as levers for*
*organizational development*
*and competitive advantage*

# 3 Value-led Innovation for Increased Competitiveness

## *Developing the concept of quality to serve the cooperative purpose*

*Chapter summary*

1. Innovation requires an organizational culture that empowers employees and suppliers to constantly search for improvements.

2. Quality standards are driven by the customers' definition of what would be the best deal given their needs. In cooperatives there may be customers who are not the cooperatives' members, but members are always customers. What distinguishes the two categories of customer and member is the latter's status as owner and the nature of the services/products that the cooperative is respectively offering members and customers. Both need quality standards determined by their respective needs and aspirations.

3. To say that members are more than customers is to miss the point. Nobody is more important than customers to the success of the cooperative. Members/customers both receive products or services from the cooperative. Members receive services required by their membership; customers, as a result of their custom.

4. Members have additional rights of governance and should expect the highest quality of facilitation by the cooperatives staff to enable and indeed encourage members to exercise this right of governance.

5. Private sector quality standard setting is flawed by a perspective on the consumer primarily determined by the trade or industry of the producer/service provider. Organizations operating on the basis of community and mutuality are best placed to *define* customer quality standards as they can situate the whole person in their community (which is a common community with the cooperative as both organization and association) and consider the product/service delivery package in the light of this analysis. This provides a potential for identification of additional added value for the consumer and hence a competitive advantage for the cooperative.

6. Mutuals, have a further potential competitive advantage in *delivering* quality. Whilst they, like their rivals, have to fairly settle disputes over distribution between stakeholders, cooperative shares are not freely tradable in the capital market. Cooperatives, therefore, do not have the added

complication of achieving returns on investment at a rate dictated by the capital market. Their shareholders' capital is a membership fee giving access to services not an investment for capital growth. In the trade off between service level and return on capital employed, the cooperative can err on the side of service to a greater extent than their capital-based rivals.

7. The development of management theory and practice concerning the problem of responding to the market through the delivery of consumer satisfaction is traced in this section. It is argued that modern management approaches to customer-led *definitions of quality* and stakeholder relationship-based strategies for the *delivery of quality* can be applied successfully by cooperatives. It is further suggested that these management philosophies and strategies can be operated more effectively within organizations with a membership-based ownership structure operating with a business philosophy rooted in mutuality and service delivery than is the case for organizations whose ownership structure is rooted in the capital market.

8. This may provide cooperatives with a sufficient compensating competitive advantage to that of their rivals' advantage of greater flexibility in raising/investing capital to enable cooperatives to compete effectively in the global economy. The quality and professionalism of cooperative management, it is argued, will be the determining factor in whether this competitive advantage is realized in practice.

9. Other membership-based businesses may share this competitive advantage with cooperative forms of membership-based business. Cooperatives' open membership allows them the best chance, however, of realizing this advantage and achieving economies of scale at a level which can match the industrial/service entry economies required to compete effectively within national and regional markets against multinational corporations.

10. The key to the realization of both service definition and delivery advantages together with scale efficiencies lies in the management and organizational culture engendered within the cooperative. This determines its relationships within the network of associated stakeholders; namely, members, employees, suppliers, carriers, non-member customers and the wider community.

*Introduction*

In this chapter we consider the problem of the lack of innovation within cooperatives and the parallel problem of increased competition facing cooperatives in today's deregulated marketplace. At the heart of the competitive struggle is the quest to match the standards of service delivered and quality of product provided as closely as possible to the expectations of the market at given prices. Innovation to be effective must be customer driven for all businesses. It must also be remembered that with every push to give the customer what they require at a given price level there is an equal pressure to reduce the costs of delivery. To provide more for less. Thus the other aspect of innovation is its role in driving costs down without sacrificing quality. In mainstream business this push to drive costs down has been generally at the expense of labour in terms of increased intensity for those in work and increased numbers out of work.

Costs can also be seen in social terms. Reducing environmental costs by increasing energy efficiency helps society and the organization. Consumers are often prepared to pay a premium for products whose processes protect wild life and the ecosystems we all depend on. Labour conditions, particularly those affecting vulnerable groups like children, may also be expected to figure in the consumers' choice of product or services when they have the basis to make an informed choice. The whole concept of consumer life style and brand image is value led. The question is, are the values dominating the marketplace really the only values the average consumer possesses? Why is it that we see cooperative values addressing social needs but then fail to exploit these on cooperative commercial brand images reflecting the life style aspirations of the mass of people?

Cooperatives that serve communities and provide employment not only save society welfare payments they often provide valuable community services that could not be provided by capital-based firms at an "economic" return on capital (market expectations of return on capital invested). Wages are paid out of gross profits. As long as gross profits can be created efficiently at appropriate levels of quality to provide the services required, cooperatives can make an economic and social as well as individual case for their existence. They eliminate one stakeholder - the investor. The operation of the market ensures that all the remaining stakeholders have a material incentive to meet customers' needs and work efficiently.

Without the discipline of profitability criteria the cooperative needs to find other criteria to measure management performance against. I suggest that this criteria is *quality*. I further suggest that this gives the other stakeholders the means to judge management and themselves, and, it gives the lay membership a clear criteria on which to judge management and dismiss it when it patently fails to achieve those standards. Quality standards at the service of the customer provides one objective manifestation of the realization of cooperative identity.

Introducing this approach will mean sweeping changes in traditional cooperative organizational culture. New partnerships between lay and professional board members; greater involvement and consultation with employees, suppliers, carriers, members and customers. Maintaining and developing the new approach will be by all stakeholders being committed to continuous improvement. That is the commitment to continuously search for small improvements. We tend to think of innovation as being about big sweeping changes. Sometimes this is the case, but more often it is in the process of introducing a continuous stream of small changes that overall competitive advantage grows.

Improvements are not concerned here with just what might be technically possible but with improving the technical delivery in ways that provide what the customer requires. Innovation is driven by quality and cost considerations and both can be led by customer needs. In the section below I briefly trace the development of the concept of quality management before examining why it can be a powerful instrument in improving competitiveness by using cooperative values as a quality management tool.

*The development of the concept of quality in management theory*

The classic definition of quality has perhaps been provided by Dr. Edwards Deming

> "Good quality does not necessarily mean high quality. It means a predictable degree of uniformity and dependability at low cost with a quality suited to the market". [67]

Quality in the context of organizations and their customer relationships is both about the definition of objectives and the establishment of the operating methodologies for their achievement. The ultimate goal of Quality Management is to secure a competitive advantage in the marketplace. It seeks to do this both in terms of cost of production and delivery and in the closeness of the matching achieved between the service or product provided and the customers "ideal" specifications.[68]

The day may come when the most important process of governance in a cooperative will be the completion of member and customer satisfaction surveys.

*Scientific Management's contribution to defining quality standards*

The first concept of quality was drawn from an engineering-led view of quality as conformance to certain technical specifications. It was closely linked in its approach

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[67] Deming, Edwards W.: Quality, *Productivity and Competitive Position*, MIT, 1982.

[68] James, Graham: *Quality of Working Life and Total Quality Management*, Work Research Unit, ACAS, WRU Occasional Paper, No. 50, Nov. 1991, p. 8.

to the Scientific Management School which remains immensely influential despite the years that have passed since its first formulation by F. W. Taylor's *Principles of Scientific Management* (1911). This book has been translated into a dozen languages covering as diverse a set of cultures as Soviet Russia, industrializing Japan, Maoist China and, of course, the United States of America.[69] The socio-economic context for the rise of Scientific Management can be summed up in terms of four key factors:

- The closure of the American frontier;
- the growth of industrialization and with it the emergence to prominence of a middle class of technocrats and engineers;
- the growth of trade unionism and industrial unrest and;
- the continued development and application of technology to increase specialization, the division of labour and mass production systems.[70]

Taylor's approach had four components to it. Firstly, *functional specialization* based on separate foremen to control gang work, speed, repairs and what Taylor called a "thinking department". The second component is *work study*. This was based on observation of the best workers from which an analysis and break-down of the elements involved in the task could be made. This was followed by the elimination of those elements that were unnecessary and the selection of the quickest elements which were themselves constructed into the most effective sequence. The third component was that of *selecting and training* the worker. Physical and psychological profiling was seen as the means to get the best fit between the job and the worker. This was then supported by training in the one best method for the job in question. Finally, motivation was to be by piece rates to ensure maximum productivity as *income was to be clearly related to effort*.[71] Craige T. Littler has summarized the Taylorite operating principles into the following:

- A general principle of maximum fragmentation which decomposes work into its simplest constituent elements or tasks;
- the divorce of direct planning and the doing of the work, thus removing as far as possible any discretion in how the work is to be performed;
- the divorce of direct and indirect labour which embodies the principle of task control. Here a planning department was envisaged to plan and coordinate the manufacturing process;

[69] Wheale, Peter: Chapter 11 in *People, Science and Technology*, Wheatsheaf, (ed.) Boyle, Wheal and Sturgess,1984, p. 199.

[70] Guilen, Mario F.: *Models of Management*, Chicago U.P., Chicago,1994, pp. 31-58.

[71] Braverman, Harry: "Scientific Management" in *Labour and Monopoly Capital*, Monthly Review Press, 1974.

- minimizing skill requirements and job learning time;
- Reduction in the material handling to a minimum through mechanization, finding the single best way to do the job and by close supervision and work study.[72]

The essence of Scientific Management is standardization through achieving best practice through careful selection, rigorous training and close supervision based on a division of labour in which decision taking is separated from the execution of tasks as far as possible. The objective is to increase the productivity of labour through control of the worker in terms of their time and motion by a mix of close supervision and financial incentives and the destruction of all craft-based discretion on the part of the worker.[73]

*Quality as an engineering specification*

Five phases may be detected in the development of thinking on Quality Management.[74] The first three of which draw heavily on Taylorite methods and approach (if in a more refined or developed manner). The first development has been characterized as *Quality Control* and involves essentially the detection of faults at the point prior to delivery at the end of the production cycle.[75] These techniques were widespread by the 1920s. It was essentially a process of setting standards and monitoring outcomes. The standards themselves have been identified as deriving from two separate meanings given to the term quality in this context. The first being in terms of the excellence or grade of specification in terms of production and delivery. The second, performance in relation to the customers' expectations or specifications.[76]

Taylorite ideas informed the objectives and rationale of the former and provided much of the inspiration for the methodologies used in Quality Control and the next stage known as *Quality Assurance*. The latter is essentially a refinement of Quality Control that focuses on the process rather than the results. It is concerned with the procedures for assuring that quality standards are met through procedural compliance (one best way - Taylor) and conformity to specification. Essentially BS 5750 and ISO 9000 are quality assurance systems.[77] However, Quality Assurance does get used more widely

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[72] Littler, Craige T.: *The Development of the Labour Process*, H.E.B., 1982, pp. 51-52.

[73] Braverman, op. cit., pp. 135-137.

[74] James, Graham: *Quality of Working Life and Total Quality Management*, Work Research Unit, ACAS, WRU Occasional Paper, No. 50, November, 1991, p. 2.

[75] Dip. Man. M3.U3-Ver.1 Workbook Resource Three, "Quality Themes". An adaptation of Bone C., *Modern Quality Management Manual*, Longman, 1991. p. 3.3.

[76] ibid., p. 3.2.

[77] James, op. cit., p. 2.

and can be used to describe systems that are more aptly defined as Total Quality Control.[78]

*Human Relations: Organizational behaviour and the pursuit of quality*

With Total Quality Control we move to reinforce compliance with specifications through the application of social psychology and into the area of culture and attitudes. The focus moves to include all aspects of the organization and whilst including all the Quality Assurance features pursues the elimination of waste and non value-added procedures; the search for continuous improvement through refinement of quality control systems; and the use of computer aided techniques such as Just in Time.[79]

Gaining acceptance of support departments to collaborate in the realization of quality standards and instilling employees with a positive attitude and commitment to waste elimination and the search for continuous improvement is more than techniques, procedures and specifications, it is a struggle for the hearts and minds of the employees. This takes us beyond Taylorism which, "....is defined here as an organizational ideology and a set of techniques....... As an ideology, scientific management assumed that all actors (workers, managers, entrepreneurs, owners) could behave rationally......"[80]

Scientific Management was challenged by a number of writers who began to draw upon older ideas of "welfare" and allied them with new discoveries in psychology and social psychology. The psychological emptiness of Taylor's approach with its instrumental and one dimensional model of the worker and the worker's relation to work was an obvious area for attack. Nevertheless, much of modern work study, ergonomics, job design and not least quality control, and quality assurance owes a great deal to Taylorism. Some American union leaders embraced Taylorite philosophy whilst simply wanting the right to negotiate the rate for the job. The crudity of Taylor's economism and the barrenness of the social content in his approach, however, was rejected by many academics and some social segments of management more strongly influenced by an older paternalistic welfare oriented model of

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[78] The literature generally acknowledges the lack of precision in terminology. See various consultants and writers such as Richard J. Schonberger, *World Class Manufacturing. The Lessons of Simplicity Applied*, Free Press,1986, p. 123. See for a further example the consultants Goldcrest Communications training materials, "The Quality Assurance System" 5.6 System Checklist, which involves market analysis and selection of suppliers as key steps in their definition of a Quality Assurance System. These are seen in Schonberger and Graham (op.cit.) as elements of either WCM or TQM. C. Bone (1991) see ref. 10 above also agrees that there is much looseness in the use of terminology in this area.

[79] James, op. cit., p. 3.

[80] Guillen, Mario F.: *Models of Management. Work, Authority and Organization in a Comparative Perspective*, University of Chicago Press, 1994, pp. 8-9.

management.

The "Human Relations" approach to management argued that the social dimension in organization was the key to motivating workers, and that management approaches based solely on formal technological, bureaucratic and market constraints was inadequate. The advent of research into fatigue, the discovery of problems of monotony and the recognition that sociological and psychological factors were leading to continued alienation of the worker lent support to this position.

Human Relations theorists were trying to respond to the rootlessness, materialism and individualism of urban American life and the continued industrial conflict that it had created.[81] They accepted the Taylorite view that rule by a technical elite was inevitable but saw industrial conflict as a symptom of a maladjustment in industry that was required to be corrected by a socially skilled management and working arrangements that reflected human beings' social needs. If the worker for Taylor was a brute only obsessed with making money, in the work of Elton Mayo, the promoter of research into the Human Relations approach, the worker now became somebody obsessed with belonging and togetherness. Since Mayo, social psychology has played an important role in developing theories of management practice. Group dynamics, motivation studies, counselling/mentoring, team building, leadership, welfare and employee communications all have developed within the Human Relations school tradition.[82] The work group could now become an established focus for maintaining quality standards and for their improvement.

The Human Relations paradigm, however, shared many of the goals of scientific management including:

> ".......improving cooperation in the workplace, increasing productivity, and justifying managerial authority.........The supporters of both scientific management and human relations hoped to find "one best way" of organizing, but the organizational techniques proposed differed greatly....."[83]

Between the first and second world wars, therefore, two rival "schools" of management (in other words, two different answers to the question, what is management?) emerged: "Scientific management" with its stress on "economic man" and, the "human relations" approach with its stress on "social man".[84] Both these approaches remained one-sided but in TQM we see the beginnings of the systematic

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[81] ibid., pp. 58-73.

[82] Rose, Richard: *Industrial Behaviour. Theoretical Developments Since Taylor,* Penguin Books, 1978.

[83] Guillen, op. cit., pp. 9-12.

[84] Fox, Alan: *Man Mismanagement*, Hutchinson, 1977, pp. 45-104.

integration of the insights of both schools of thought. Scientific Management contributing most to the attainment of excellence or grade specification and cost control elements in TQM. Whilst Human Relations contributed to the involvement of all employees in the search for continuous improvement and waste elimination in TQM.

The importance of team work and the empowering of the group by giving it responsibility in the search for continuous quality improvement and the elimination of waste was possible thanks to the prior work and assumptions worked out in Human Relations theory.

*From organization-led to market-led quality management*

The problem with the Human Relations approach, however, lay not just in its one dimensional emphasis on the work group nor in its failure, alongside Scientific Management, to emphasize the role of the customer in the determination of standards. Its most damaging weakness lay in the incomplete definition of its central premise, namely the nature of the "social man" it was concerned to manage. Its micro-level focus on the work group ignored the macro-level determinants of social solidarity and social conflict, namely the relations of production and the technical basis determining the labour processes in which those relations became articulated. Labour relations are not ultimately determined by the dynamics of small work groups but by the dynamics of the marketplace itself, both the markets for labour and the markets for shares, and by the prevailing leading-edge technologies available to the organization.

These macro-level issues of imbalance in power at the level of the market are the very conditions cooperatives came into being to address. Unlike Human Relations theories, cooperative human-centred values are based on macro-level concepts of community rather than group. As such, they are a much more powerful tool for the construction of an organizational culture that is rooted in the marketplace and in the society that it seeks to serve. As such cooperatives are particularly suited to respond to the next development in management thinking concerning the definition and delivery of quality.

The Japanese Union of Scientists and Engineers and particularly their Quality Control Research Group (commenced in the late 1940s) picked up the ideas implanted by American production engineers lecturing in the 1950s like W.C. Deming and later by the total approach advocated by A.V. Feigenbaum which led to the Japanese innovation (linking the technical and social dimensions of work) of Quality Circles originally conceived as study groups for foreman and eventually to Total Quality

Management (TQM).[85] TQM has been defined as:

"................. 1) involvement of all functions;
2) involvement of all employees;
3) continuous improvement as a goal;
4) the emphasis on the customers' definition of quality." [86]

To these elements Graham James adds that TQM is "...a process of habitual improvement with control embedded in and driven by the organizational culture..... The foundation of this theory is the generation of participation, involvement, pride in work and the removal of fear from organizations.[87]

The further refinements leading to the development of TQM built on the idea of quality as customer led and with it the recognition that standards of quality were themselves contingent on the definition of the market niche being addressed. In these developments we need to recognize the influence of ideas rooted in the third school of management thought referred to as Structural Analysis.

*Structural Analysis and Contingency Theory of Management in pursuit of World Class Quality standards*

The increasing size and complexity of business organizations in the 1960s and the increase in oligopolistic competition as more markets became dominated by giant firms led to a sense of greater managerial discretion. With this discretion came greater variety in organizational forms not least because of issues arising from alternative integration and disinvestment strategies and the most appropriate structures for their management.

Thus structural analytic theorists saw the analysis of the technological and the competitive environment of the organization as determining the optimum organizational structure. It was Joan Woodward in *Management and Technology* (1958), who is purported to have made the first concise statement of contingency theory in management. Her studies indicated that there was no one best way to manage but that it depended very much on the type of productive context (unit, mass, or process production) coupled to the type of technology available that determined how management would be structured and the methods it would adopt.

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[85] Wilkinson, Adrian: "Total Quality Management and Human Resource Management" paper to the Industrial Relations Research Unit Workshop, University of Warwick, (April 1992), pp. 4-5.

[86] ibid., p. 5. (quoting Garvin,1988).

[87] James, op. cit., pp. 3-5.

The constraints which determine management structure and behaviour can be characterized as being under eight broad headings:

- Competitive environment;
- legal regulative environment;
- level and type of trade union organization;
- prevailing culture and social structure;
- international hegemony of a particular state or group of states;
- technology;
- the prevailing rate of profit;
- availability of capital, labour and other material resources.

With the further development of technology and the opportunities for global sourcing that exist today, labour has become more expendable and readily available. In the nineteenth and early twentieth centuries business was driven by production, but today it is driven by marketing. This has not stopped the continued growth in size and complexity of modern organizations as any examination of the league table of the top 500 firms will confirm. Globalization and the realities of oligopolistic competition by organizations that are marketing led has, however, created further pressures for:

- Costs to be held down across the whole logistics chain;
- the need for increased responsiveness (flexibility) to changes in the marketplace and,
- strategic positioning of the organization through market research, R&D, mergers and acquisitions.

In order to respond to these pressures there is the need for ever-increasing levels of intelligence of the business environment, and for rates of capital growth that can enable the organization to keep pace with rivals rather than be swallowed up by them. Under the constraints identified by the structural analysis approach managerial coordination and control becomes more complex. The implications for TQM of the shifting boundaries between market mechanisms for coordination; traditional models of bureaucratic control; new modes of governmental and supra-governmental regulation; and more fluid structuring of organizational sourcing and employment, has been profound. It has created a need to mesh various modes of coordination into a global networking based system of information exchange and coordination.[88]

The central managerial problems that Structural Analysis attempts to address are the

[88] Guillen, op. cit., p. 13.

achievement of clarity about where the market is moving; how to position the organization to take best advantage of these movements; and a recognition of the constraints affecting the organization's ability to respond. The greater flexibility in managing labour arising out of the Human Resource Management (HRM) approach has made HRM a valuable parallel "enabling" strategy that meshes in well with the TQM approach.

Just as TQM is about the matching of quality specifications to customer expectations or needs, so HRM is about the matching of human resources to the needs of the organization. Ultimately the HRM configuration in a TQM driven organization will be one determined by the customers' requirements for products and services at a given level of conformity to uniform standards and predictable performance. In the same way Just in Time (JIT) methods aim to match output to consumption. It is unthinkable to introduce JIT without HRM.

It is these challenges of size and the complexity of sourcing in a global context that has been the instigator of the last major development of Quality Management thinking taking TQM and transforming it into *World Class Manufacturing* (WCM). WCM may be described as TQM applied by the organization right across its logistics chain. Structural Analysis functions here at the global level through its focus on identifying a strategy and structure for the management of relationships with key stakeholder groups within and without the organization. As the complexity of organizational decision making and inter-organizational relationships increases, a *common search for customer-led quality* becomes imperative to cement organizations and their networks at all stages in the logistics chain.

"If you have world class manufacturing pretensions, those you buy from and sell to may not be business adversaries. They are co-producers, co-makers, or partners in profit (Harley-Davidson's term). You want your business partners to be the best, but they will not be if:

1) You beat down the price so much that your provider or customer is unprofitable, unable to invest in improvements, and perhaps unable to stay in business.

2) Your withholding of information on capacity plans, product plans, and demand forecasts causes your supplier/carrier to design, buy, build, and ship late - or early.

3) Your failure to specify requirements clearly makes it impossible for your supplier to assure quality at source.

4) Your failure to share best business practices contributes to their inability to keep up and stay attractive to you as providers or customers.

5) Your energy is expended in the search for new providers and customers,

which results in a continual succession of start-ups and no movement up the learning curve.

6) Your lack of interest and reluctance to keep in close touch leads them to treat you as an adversary." [89]

To this catalogue of negatives in the supplier relationship could be added the most important of all: Do not hold back payment after the goods or service have been provided. Developing positive supplier customer relationships based on quality driven imperatives becomes a key aspect of the WCM approach. Personal contact at all levels is important to identify and eliminate problems. The objective is to get the matching of service/commodity to need in use by the final customer. For quality under TQM is not an absolute term but a contingent, one that merely refers to a conformance to customer requirements for a predictable uniformity and dependability in standards.

There is less need for support services as flexibility reduces the demands that are put on support staff. The aim of WCM is "more for less or as one writer on WCM puts it "..because WCM keeps things direct and simple........it has leverage effects on support staff. [90] This leverage on staff results in higher levels of productivity in the non value-adding departments as their functions become more involved with the value-added departments themselves. Thus there are better results with fewer staff in departments such as maintenance, accounting, quality assurance, production control, materials management, data processing and personnel/HRM. Devolving to the production or service delivery area by the non value-adding functions means greater focus on problem solving that is defined by the quality objective of achieving fitness for use and responsiveness to customer needs.[91]

Within divisional level and functional levels TQM and HRM enable the organization to devolve the responsibility for customer-led quality improvement while maintaining an overall strategic emphasis enabling the divisions to find a competitive advantage within their particular market(s). It is within these devolved levels of responsibility at the operational level that the search for continuous improvement goes on.

### *The problem with TQM*

The TQM/WCM approach appears to have realism, market sensitivity, and some positive values in terms of employee involvement, supplier relations and customer satisfaction. This being the case why has Quality Management had such a rocky

[89] Schonberger, Richard J.: *World Class Manufacturing. The Lessons of Simplicity Applied*, Free Press,1986, p. 40.

[90] ibid., pp. 155-156.

[91] ibid., pp. 41.

history? Why are there still so many dissatisfied customers, so many poor contractor-supplier relationships, so many poor insecure employment contracts, and so much general concern about the perceived lack of ethical or social responsibility in the management of business?

> ".....the changes in philosophy engendered by TQM, JIT........have not been enough because in many instances they continue to encourage an internal focus.[92]

What is this "internal focus" which is being alluded to? For all capital-based organizations it is that of establishing a competitive rate of profit that protects share valuation and market rating. The stakeholder model requiring all those with stakes in the organization, including shareholders, workers, suppliers, customers and the wider community to fair and equitable treatment of their interest comes up against the tension of the real conflicting interests of the parties under conditions in which one of the parties has the major power. The organization is made up of various interdependent components including a wide range of outside organizations.

The power and authority within organizations, however, is vested in its executive management operating on behalf of the shareholders. This is the case no matter how flat or devolved the organizational structure is. As for external relations often the organization itself vis-à-vis the supplier or customer is so large that it has a dominating market position. In the case of many suppliers and workers, as well as not a few customers, it is they who are in a position of dependency on the large business corporation.

There are further problems that undermine the objectives of TQM and WCM. Firstly, what is the real content of what is meant by the claim that TQM as practiced is really customer led? Is not the real role of the customer expectations analysis to help determine a competitive advantage for the organization in the marketplace in the interests of the organization? This is not to say that no benefits accrue to the customer as a result of this process but it does suggest that those customer interests that do not serve the interests of the organization may well be glossed over or ignored as irrelevant. Secondly, there is the question of whether the customer has any responsibility for our understanding of Total Quality? Fortunately for the continuation of the planet and our human existence increasing numbers of consumers in their associations and one or two businesses are recognizing the end users responsibility for quality and the interests of other stakeholders.

Clearly, the WCM aspiration of establishing a partnership between suppliers, carriers,

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[92] Sparrow, Paul and Hiltrop, Jean-M.: *European Human Resource Management in Transition*, Prentice Hall,1994, p. 645.

and customers - "Partners in Profit", as Schonberger[93] refers to it, cannot be fully realized given the realities of market power in today's global economy. In any case this is not an adequate expression of the stake-holder model, the acceptance of which is central to the validity of the whole TQM/WCM agenda. It is inadequate on two grounds. Firstly, it ignores the fact that the overwhelming majority of individual customers do not benefit from profits but from wages and prices and the user values incorporated in the products or services they consume. Secondly, it does not involve all the stakeholders. The employees are allowed no separate interests beyond the organization that employs them in this model and the wider community or society is similarly ignored in this TQM "partnership that is beginning to look suspiciously like a cartel. Cooperatives by creating greater pluralism within the marketplace can help to create market conditions whereby real partnerships based on mutual benefits can be established".[94]

All mainstream management approaches have a number of crucial untested assumptions in common which I believe helps explain the weakness in practice of the TQM/WCM concept. Firstly all management theories assume the legitimacy of the ends being pursued and the means by which they are pursued. Secondly, values and culture are also either assumed in the case of Scientific Management or in the other two approaches brought into the concept of management as simply one more management tool amongst many others. Values are selected to legitimize and support managerial ends rather than as in the cooperative case a means to question and define the ends themselves.

With such an inadequate theoretical basis the stakeholder model for managing organizations and the pursuit of real TQM will remain illusive. It is not just any values but specifically cooperative values that provide the basis to question and define business ends in human-centred terms. What industry desperately needs today are the insights that come from membership-based business philosophy. Ironically for their competitive survivals sake this is precisely what most of the world's cooperatives also need to apply.

*Quality management and cooperative values*

More often cooperative difference is demonstrated in terms of means. The means are generally thought of primarily in terms of governance through member democracy. Whilst the principle of democracy is a fundamental condition I believe that an equally fundamental cooperative method not so often emphasized within cooperative circles is the principle of mutuality. Cooperatives have through the extension of the practice

[93] Schonberger, op. cit., p. 40.

[94] Davis and Donaldson, op. cit.

of mutuality to all stakeholders, the methodology to operate quality-led partnerships with *all* stakeholders with a transparency that eludes the private sector profit-led organization.

*Cooperative value-based management:*
*Bringing a new dimension to the customer-led definition of quality*

Cooperative value-based management does not reject the tools developed by the three schools that we have briefly reviewed above. Issues relating to work study, ergonomics, selection and training, communications, relationships, leadership, the business environment, and organizational structure and strategy among many others will always have to be addressed by all managers. Business, however, including cooperative business must examine its purpose not in the light of micro-level analysis but also at the level of macro-level analysis. By macro-level I mean two things:

- an examination of human society and its development and,
- an examination of the environmental systems that sustain human society (including the biological and animal cultures that we depend on and interact with).

Total Quality (in terms of the delivery of goods and services) as a philosophy must be about the organization matching these macro-level needs to micro-level customer satisfaction. It's not that we stop serving the customer first, rather we recognize the customers for what they really are: a mix of consumers, citizens, employees, small businesses, and small farmers, etc. with complex roles and responsibilities determined and defined by their social relationships and by their dependence on their natural environment for continued health, welfare and ultimately life itself.

Value-based management is increasingly written about and the importance of organizational values and culture informs much of the mainstream management literature today. Cooperative value-based management should not to be seen as a "soft idea" but one that requires as much data and data analysis as other forms of management decision making. Its starting point is human need at the macro level matched against the specific nature of the micro-level business. Its role is to position the business to respond effectively to the human-centred needs identified through the value choices it makes in the provision of goods and services to customers. Cooperative value-based management asks three additional questions when conducting an analysis of their business environment:

1) What are the contemporary needs of the human community and its development that we serve and operate within?

2) What are the needs of the environmental systems upon which human society and its development depend?

3) How can our business respond to those needs by what we do and what we refrain from doing and make a profit or surplus in the process?

No customer-led, quality-based organizational purpose or mission or objectives can be established which does not have answers to these questions. The need for economic success and competitive pressure are still important motivators as well as constraints on action. The concerns and the goals of the consumer concerning specific products or services are just as critical as ever they were. Now, however, the information cooperative organizations are seeking from the consumer and the message they will be giving to the consumer are based upon criteria that *includes* a societal level of analysis based upon a human-centred and ultimately creation-centred agenda.

Gerry Johnson maintains that values determine how management perceives and responds to the environment.[95] Very well, what cooperative value-based management insists on are that those values are themselves subject to critical analysis and justification against human-centred macro-level criteria. It is not just what our values are, it is how well they relate to the human-centred needs of our time and place. Without an insistence on this, proposals for a stakeholder-driven approach to management [96] will remain devoid of content and be dependent on the countervailing power of the "partners". It is the strength of cooperatives that they can through their membership base authentically reflect these human-centred, macro-level criteria to establish a social consensus for the governance of stakeholder relationships and the definition of organizational purpose.

There are three reasons why this human-centred approach to value-based management is the future for all management.

- *Firstly, it represents what the consumer wants and, when the consumer gets the opportunity, what he or she will invariably choose.*
- *Secondly, it is the future for management because it represents the logical development of management into a true profession.*

Up to now senior management have been depicted either as Taylor's technologically led "economic man" driven by the need to enhance personal wealth, or as extroverted egotists bent on power and position: in both cases, however, they end up presented as neutral manipulators or administrators of tools of analysis and various techniques with the aim of meeting the ultimate criteria of competitive rates of capital growth. It is in this neutral context that the label "professional" is most often attached to managers.

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[95] Johnson, Gerry: "Corporate Strategy and Strategic Management" in *Introducing Management* (ed.) Elliot and Lawrence, Penguin, 1985, p. 426.

[96] Stakeholder approaches are not of course new but can be traced back one suspects to the desire to blend insights from the Human Relations approach with that of Structural Analysis.

Here again we have an echo of Taylor's "Scientific Manager" as a positivistic creation following the value-free revealed truths of science.

*What most managers want and probably try to be, however, is what a real professional has to be: not value neutral but value led.* A truly professional manager exercises a position of genuine leadership based on superior knowledge of the needs of those being led or otherwise served. Thus professional management can only be a management based on human-centred values and needs. Those being led are not just the employees of course but in a critical way it includes the consumers who are being asked to choose a particular life style and future in the selling proposition being made to them and also the broad community of interests interacting with the organization.

- *Thirdly, value-based management is better placed to respond to the economic reality of the world as it enters the 21st Century.*

The fastest rate of capital growth is no longer the only or even primary criterion for economic performance today. Such notions are being challenged at the highest levels of economic policy development.[97] Resource constraints require that sustainable development replaces capital growth as the lead criteria for economic performance. The focus of economic endeavour is not to resolve problems of wealth creation but problems of access to wealth creation opportunities and the general allocation of resources.

To deliver World Class Cooperative Quality and achieve competitive advantage cooperatives need cooperative managers who will be leaders of associations of stakeholders. The performance of their leadership will be judged by their understanding of the needs of their customers at the level of their community and its environment as well as in terms of delivery of specific products and services. Cooperative quality standards can incorporate alongside traditional product/service centred measures of customer requirements added social value. Cooperative ownership structure gives them an advantage in the delivery of this added value to their customers. Cooperative values can enable them to communicate effectively with their markets and position themselves effectively within their markets.

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[97] See Bulletin of the European Communities, chapter 10 "Thoughts on a new development model for the community", *Growth, competitiveness, employment. The Challenges and ways forward into the 21st century*, Commission of the European Communities, Supplement 6/93, Brussels, 1993.

# Action points

1. Consult members, employees, suppliers, carriers and customers about quality standards. Listen, record, analyse and interpret.
2. Conduct an analysis of "Where are we now?" in terms of the realization of our member, customer, employee and other stakeholder aspirations.
3. Hold joint discussions between the board and the executive management team as to what principal changes to the cooperatives' understanding of its mission, its identity, its processes and culture will be required to meet stakeholder aspirations.
4. Establish a project team to consider the feasibility of introducing a full survey of members'/customers' social and economic needs as they identify them at the levels of their environment, society, community and family.
5. Establish a project team to undertake a preliminary review of existing delivery processes and standards to highlight potential areas requiring improvement in anticipation of members returns from the proposed survey.

# 4 Cooperative Strategic Management

*Chapter summary*

1. Strategy must operate at functional and operational levels as well as the corporate level.
2. There cannot be an effective cooperative strategic management programme without human resource management (HRM) because cooperative strategic management is human centred, value led and culture dependent.
3. Cooperatives need to merge not to compete in the global market but to be able to compete with transnational corporations in their national markets.
4. Cooperative identity and purpose give cooperatives their strategic perspective and a legitimation and differentiation in the marketplace that is of great strategic value.
5. Cooperatives' community roots and membership base are great strategic strengths enabling them to effectively develop local competencies to beat off the transnational competition.
6. Cooperatives can develop a global brand based on their shared identity, values and purpose. Such a brand could greatly support the national level competitiveness of primary societies.
7. The ICA Sectoral Committees should be empowered to establish project teams for their sectors to identify and establish new businesses to support the strategic development of cooperatives at the national level but from the global perspective.
8. Cooperatives must learn to cooperate at the global level in the areas of brand marketing and management development to create the public image and awareness of the cooperative movement and to attract and develop top quality management.
9. The ICA should be empowered to contract an *independent* agency to establish a cooperative quality kite mark. All primary and federal societies should have to apply for accreditation as with other quality standards. This is essential to help protect the global brand marketing from poorly managed primary cooperatives unable to achieve World Class Cooperative Quality (WCCQ).

*Introduction*

When the environment is moving fast there is pressure to think only short term, to lose site of your overall goals, and lose your way. Events control you and determine your responses. When that happens, the cooperative purpose is in jeopardy. Cooperatives need to develop strategies to maintain their focus and purpose, to uphold and develop their values, and to develop their services to members and customers. Sometimes unexpected challenges arise and cooperatives need to develop strategies for survival. A strategy is an essential management tool that provides the framework for evaluating success and failure within the cooperative. It is the essential organizing theme on which the cooperative management depends to coordinate and evaluate performance.

A cooperative strategy is that which defines its objectives in terms of the cooperative statement of identity and the overarching purposes and specific contexts of the cooperatives activities. Strategy defines the methods and resources that will be deployed in the achievement of these objectives and goes on to delineate the processes of deployment at various levels and between various functions in the cooperative over a given time frame.

The purpose of strategic management is to enable the cooperative to maintain congruence between its identity and purpose and its environment. It must develop strategies to maintain and develop its market share, strengthen its membership base, reduce its cost base and develop its suppliers' capacity to meet the cooperatives' members and customers' needs. Overall strategy is about the achievement of competitive advantage in the marketplace.

In institutional terms strategies define our vision or mission, the recognition of our core values, and the identification of our stakeholders. In organizational terms strategy achieves: direction, focus, understanding, commitment, coordination and adjustment to change and development. At the operational level, strategy is found as a plan that is acted upon at all levels across all functions. Line managers can define their key result areas in terms of the overall strategy and know why they are important. Managers at all levels have appropriate action plans for their achievement, properly resourced and over a pre-defined critical path. Finally, strategy includes procedures for monitoring and evaluating progress and making adjustments when necessary.

**Fig. 3: Key areas for the development of cooperative strategy**


**Six stages in the strategic planning process**

1. Definition of purpose or mission
2. Analysis of environment
3. Organizational analysis
4. Formulate strategy
5. Implement strategy
6. Monitor and adjust

**Stage one starts with the definition of the purpose or mission**
(Review Chapter 2)
*For cooperatives our earlier analysis suggested:*

- Market leverage/access for members;
- mutuality based stakeholder relationships;
- customer led quality standards providing products and services;
- developing community;
- ensuring social justice in the marketplace.

**Stage two undertakes an analysis of the environment**
(Review Chapter 1)

*For cooperatives our earlier analysis suggested:*

- Deregulation of markets;
- intensive competitive pressure;
- withdrawal of government sponsorship;
- decline in traditional community base for cooperatives;
- rapid technology led transformations of processes and markets.

**Stage three organizational analysis**
(Review Chapters 1 and 2)

*Weaknesses*
For cooperatives our earlier analysis suggested:
- Underdeveloped management;
- insufficient economies within organization;
- outdated technology;
- low value added;
- poor morale, uncertain purpose, bureaucratic culture.

*Strengths*
- Cooperative identity, values and purpose;
- market perception of honesty and transparency;
- mutual ownership structure;
- continued social and economic relevance to the free market;
- well developed federal structures;
- idealism and good will of many members, employees and professionals.

## Stage four formulates strategy

The most important decision to take under strategy formulation is what is described as the competitive posture. This itself depends on the assessment of the cooperatives' core competencies. The competitive posture may be based on three generic strategies, variations of which are common to all large companies: costs, differentiation, and focus. These may require additional competitive strategies depending on the specific competitive environment.

What are the special dimensions to cooperative strategic thinking? We shall look at each of the above three generic strategies and see which offers particular attractions from the standpoint of the cooperative dimension. Obviously different cooperative businesses will be able to take advantage of one or more of these generic strategies in terms of its own particular business and its position in the market place. I shall focus only on the cooperative dimension for the purposes of this survey.

### *Cost leadership*

This arises directly out of the quality management strategy by finding the least cost route to deliver what the customer wants.[98] This assumes that the customer is indifferent to the route taken to supply the product or service. It also assumes that high profits or lowest prices are the correct objectives for business. For cooperatives as for all other businesses keeping costs down is a strategic necessity to be able to compete effectively, but cooperatives are about fair prices and fair returns, not the lowest. Customers too are concerned not to have to pay more than they need to for goods and services but that does not mean that they necessarily opt for the lowest price. All things being equal they will of course opt for the lowest price. But things rarely are equal.

### *Differentiation*

Market differentiation is about ensuring that all things are not perceived as equal. Poor labour conditions, less investment in environmental protection etc. can result in low prices. Such policies also can lead to conditions that offend the consumers' sense of social justice or the need to protect the environment. Least cost may be another way of saying "least just". Least cost has to be in the context of realizing standards otherwise it will end up sacrificing them. The cooperative insistence on mutual advantage for all stakeholders and the human centred values based on democracy, autonomy, education and community, and WCCQ provides the basis for market

[98] Holt, David H.: *International Management. Text and Cases*, The Dryden Press, London, 1998, p. 228.

differentiation based upon added social value. The key to differentiation is perceived superior value.[99] Cooperatives can provide that superior value. First, by meeting the market's expectations at the price offered for the product or service provided at the level of product/service quality achieved by the industry. This itself is possible because although the cooperative may pay higher prices to suppliers or higher wages to employees, the surplus being shared does not have to meet high expectations of returns to capital. Members are more like customers than shareholders. Highly motivated employees and suppliers may in any event be able to compensate for their fairer remuneration by higher productivity. The social programmes built into the production and supply processes will in any event provide important social added value to the product/service offered by the cooperative.

Fair costs, fair stakeholder returns at fair prices needs to be a cooperative cost strategy that is also a market differentiation strategy. In order to make this succeed however, quality must match the price level for customer expectations and the social value added must be well understood by the customer and reflect real social concerns expressed in our respective markets. Beyond this there remains the constant need to keep costs down but not at the expense of social justice or the environment.

*Focus*

A company may focus on one segment of the market by concentrating on one good or service attempting to achieve competitive advantages over more diversified competitors. Entrepreneurs and small business owners position themselves in small niche markets to fulfil customer needs that the larger companies cannot fulfil. It has been argued that this focus strategy offers a competitive advantage over broad based rivals by developing a particular distinctive competency based on the local responsiveness of the enterprise.[100]

It is said of the focus approach to business strategy that,

> "......by concentrating on a distinct line of merchandise, a specific technology, or a range of services ....... the company ..... that cannot compete on costs or differentiation might elect to uncouple its worldwide operations and focus them on select niches, thus avoiding head to head global competition against organizations of superior strength. In effect, a company can expand globally through select markets, choosing carefully where to do battle, rather than

[99] ibid., p.230.

[100] ibid., p. 231.

launching a major offensive on many fronts."[101]

*Globalization and national level competitive advantage*

For most cooperatives the real impact of globalization has been to open up their increasingly deregulated markets to fierce competition from transnational corporations. For some in agriculture and financial services new markets are opening up but it is the external threat that globalization poses that has impacted most on the average primary cooperative.

Mergers between cooperatives to get the best cost and other economies and to obtain better leverage in the national market is a defensive strategy in the face of globalization. It is, however, a strategy with some positive omens for success. Writing on the multi-domestic strategy Richard L. Daft noted that:

> "Many companies reject the idea of a single global market. They have found that the French do not drink orange juice for breakfast, that laundry detergent is used to wash dishes in parts of Mexico, and that people in the Middle East prefer toothpaste that tastes spicy. Parker Pen launched a single international ad campaign and reduced pen styles from 500 to 100, causing a strategic disaster. New pens and advertising campaigns have now been developed for each market."[102]

We have seen that the cooperative's unique membership base should provide them with a local competency second to none. Combined with their market differentiation based on their provision of social value added cooperatives can build effective generic strategies on at least two out of the three options presented by the literature on strategic management. There is on these grounds a clear need for cooperatives to seek strong ties to whatever definition of community is appropriate for their members business. Their bigger competitors are essentially outsiders looking for "local" legitimacy within a distinctive national market. A quality led cooperative can win a competitive advantage. Nevertheless, the power of transnational brands is generally recognized and the cooperatives cannot afford long term to simply rely on a quality led programme tied to a defensive national strategy based on cultural/value differentiation.

Transnational competitors are constantly trying to attain national responsiveness combined with the integration of their global business. One approach that marries

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[101] ibid., p. 231.

[102] Daft, Richard L.: *Management*, The Dryden Press, London, 1997 (4th Ed.), pp. 248-249.

together the advantages of global marketing and local flexibility is global franchising. This has created a number of global brands such as MacDonalds, 7-Eleven, Kentucky Fried Chicken etc. but these global brands operate as a local enterprise. The existing international federal structure of the cooperative movement under the ICA if it was properly resourced, could enable the cooperatives to achieve a powerful international brand. An international cooperative brand to match these franchise and other powerful brands would capture the internationalism and cosmopolitanism of our modern world without sacrificing that sense of national identity and connectedness to the community that is an equally significant trend across the globe. This is not matching the business integration achieved by the best transnational corporations of course, but it would at least give cooperatives in their national markets, an internationally recognized brand. As more of the larger cooperatives move increasingly to trade across national boundaries such a positive transnational brand could only be helpful.

If this strategy of a transnational cooperative brand is to be embarked upon it must be done by professionals experienced in global branding not left to the cooperative federals' existing resources. There must be the commitment to properly resource such a campaign by the whole movement. Research needs to be undertaken to see whether this transnational brand could operate across sectors or would need to be sector specific. My gut belief is one brand across all sectors but it needs more detailed investigation than there is scope for in this overall survey of management in the cooperative context. Most important of all the transnational brand would need to have an international copyright to prevent cooperatives simply adopting it. Cooperatives should only be allowed to use the brand mark as a signal that they have achieved WCCQ. The movement should appoint or contract an independent organization to administer this accreditation process. Cooperatives having won the accreditation would then expect to be re-examined every five years with a certainty that the brand will be withdrawn if they fail to meet the standards.

### Stage five implements strategy (Review Chapters 3 to 5)

*Implementing strategy: The strategic human resource management contribution*

In the Fig. 4 below I have attempted a somewhat schematic representation of the relationship between human resource management (HRM) and corporate-level management in terms of the processes of strategic planning and implementation. The important point to make is that there needs to be cross functional teams to research, develop and implement strategy properly. HRM is a concept upon which the literature is most undecided as to how to respond despite the almost universal acceptance of the term in place of personnel management.[103]

**Fig. 4: Implementing strategic HRM in the cooperative context**

| | | | |
|---|---|---|---|
| Strategic planning processes | Operational planning | Budgeting | Monitoring and adjusting |
| Corporate level: Integrate functions for research, planning and implementation | | | |
| Integrated<br>Lay/Prof. Board<br>Cooperative identity and values<br>Strengths and constraints<br>Strategies<br>Membership and community development | Programmes: mergers, acquisitions. Marketing<br>R&D Process review<br>WCCQ<br>Sales governance Social programmes | Cost centre<br>Budget<br>Programme scheduling | Performance audit procedures<br>Management accounts<br>Customer care<br>WCCQ processes<br>Board/members' meetings and surveys |
| Human resource process devolved to line management HR Dept. facilitates | | | |
| Communications strategy<br>Training and development needs analysis<br>HR Management implications | Member-employee relations<br>Stakeholder involvement<br>Employment resourcing/design<br>Training plans | Remuneration package<br>Employment costs<br>Development costs | Staff appraisal consultation<br>Negotiation<br>Discipline<br>OD implications<br>Individual training needs<br>Customer/member care<br>Quality standards<br>Member services |

There is no doubting the crucial role that HRM plays in the implementation of strategic management.[104] Much of the failure of TQM and Business Process Re-engineering (BPR) has been put down to inadequate HRM inputs particularly at the

[103] See for example, Keith Sisson, (ed.) "Personnel Management: Paradigms, Practice and Prospects", in *Personnel Management*, Blackwell, 1994. Also, John Storey (ed.) "Human Resource Management: Still marching on or marching out?" in *Human Resource Management. A Critical Text*, Routledge, London, 1995.

[104] Tyson,Shuan (ed.): "Human Resource and Business Strategy", in *Strategic Prospects for HRM*, Institute of Personnel and Development, London, 1995.

preparation stage in introducing BPR into the organization.[105] BPR is a fundamental and holistic re-appraisal of all procurement, process, delivery and administrative systems in the organization aiming to reduce costs and either maintain of improve quality standards. In a sense the same thing is true of HRM as with TQM. The conflict between stakeholders in the private sector firms is real and does not assist the essentially unitary message of these two management philosophies.

Translated to a cooperative context HRM appears to be an obvious strategy. Why? Because just as TQM and BPR and Strategic Management itself require a holistic approach, so does HRM. Just as TQM and BPR are driven by a value-led approach aiming to change culture and attitudes as much as structures and processes, so does HRM. HRM practitioners and theorists alike often refer to stakeholders. In the cooperative context we can permit the HRM approach of matching human resources to organizational needs because such a process takes place in the context of an organizational purpose that is based on mutuality, recognizes community, and is service/product driven not profit driven. Members' interests do not exclude other stakeholders nor do they conflict with other stakeholders because the quality of services provided to members is driven by the quality of the other stakeholder inputs. There is mutual interdependence between members and the other stakeholders. In the private company it is more a case of dependency for many stakeholders by reason of the monopoly power exercised by one dominant stakeholder: the shareholders.

HRM is very much concerned with development to ensure the right match between employee and the organization. Getting the right fit gives the organization the right resource, and the individual the right job to optimize their satisfaction at work. It also ensures the lowest cost of labour input commensurate with the overriding cooperative imperatives of solidarity and mutuality. At the heart of the HRM approach, however, is the communication of culture to support the devolution of managerial responsibility for HRM and the achievement of operational objectives. In the cooperative case, however, it is in terms of the wider fulfilment of cooperatives' strategy.

Senior line management and the specialist personnel/HRM department must provide clear and unambiguous values, standards and procedures to guide and support the local line management. This includes the appropriate training and development opportunities to enable their line managers to be both competent and confident in their application of HRM tasks. Leadership and team-work are central to both generating and monitoring levels of employee motivation and are fundamental to ensuring good employee and industrial relations, as well as the individual employee's commitment to quality and customer care.

If line management has not got this right, further devolution of HRM responsibilities

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[105] Oram, Mike: "Re-engineering's fragile promise: HRM prospects for delivery?" Chap. 5 in *Human Resource Management. The New Agenda*, Pitman, London, 1998, p. 74.

will not improve matters. There is still much to be done to involve junior and senior line management in genuine dialogue and collaboration concerning employee relations and in the maintenance of real cooperation and collaboration by employees in the business.[106] People cannot be motivated if they do not feel involved. A lot of anecdotal evidence I have built up over the years in management training programmes suggests that many junior line managers feel as excluded and unheard in the decisions taken by senior management as the people they supervise.

HRM philosophy has to reflect corporate philosophy. Senior management must be able to build from the Mission statement to HRM philosophy. In doing so it will need to ask the following key questions:

- What is our business?
- What are our values?
- Who defines our corporate values in the pursuit of this business?
- Who generates the standards and practices that are required to implement and realize these corporate values?
- What is the basis for the decision making concerning cooperative values relating to human resources? (Values, technological, labour market, commercial and statutory).
- What are our key result areas in relation to the recruitment, retention and utilization of our human resources in the pursuit of our business?
- How do our values and the standards and practices required to implement them contribute to the definition of our key result areas for HRM?
- How are the key result areas and the values and standards to be followed in pursuit of them to be communicated to our middle and junior line management?
- By what standards do we evaluate managerial performance relating to the implementation of those of our cooperative values relating to HRM?

Given clear leadership and direction concerning the above, the HRM specialist can then set about locating the key channels for formulating and communicating HRM policy and for the identification of training needs:

In particular resolving the following questions:

- Where are the key locations in line management decision making?

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[106] Davis, Peter: "Human Resource Management in the Logistics Environment", *Logistics in Practice*, NMHC Ltd., Cranfield, Vol. 2, No. 1, 1998, p. 19.

- What are the appropriate HRM goals contributing to the effective running of the business for each of these levels?
- At what levels of line management does responsibility reside for the various tasks and decisions within specified areas of the personnel/HRM function?
- How do HRM decisions at each given level of management intersect with the organizations standards and values?
- How does the personnel/HRM department interface with and involve line management in the formulation of HRM policies and strategies?

For each level of management with devolved responsibility for HRM detailed training programmes can be formulated once the detailed level of HRM decision making has been established. These programmes will integrate the appropriate values, standards, procedures, technical knowledge and skills required to:

- Assist in policy formulation;
- communicate and implement policy;
- monitor performance and;
- determine appropriate responses.

Obviously line management training needs will vary greatly depending upon the technical processes they control. There are some general areas which experience shows come up frequently in an organization that is serious in its devolution and delegation of the HRM function.

*Skills*

- Interpersonal skills
- Briefing skills
- Basic counselling skills
- Monitoring and appraising performance
- Interviewing (recruitment, appraisal, grievance and discipline)
- Leadership (particularly team building)
- HR cost control
- Management reporting

*Knowledge*

- Policies
- Rules

- Procedures
- Codes
- Working practices
- Health and safety regulations
- HRM budgets
- HRM targets
- Limits of managerial discretion
- Sources of personnel and welfare information
- Collective agreements and procedures
- Key HRM decision making centres and management (two-way) communication channels
- Key HRM data needs and reporting format.

*Affective domain*

- Attitudes towards the cooperative membership
- Attitudes towards the cooperative identity and purpose
- Attitudes towards quality programme
- Attitudes towards subordinates
- Attitudes towards supplier and carriers.
- Attitudes towards women and ethnic minorities
- Attitudes towards other managers
- Commitment towards job, corporate values and mission statement
- Attitude towards his/her peers and own sense of self-worth.

If continuous improvement is to become a reality there can hardly be too great an emphasis in the cooperative on training and development. Attitudes towards continuous learning and continuous improvement and the skills to identify opportunities for improvement are central to the realization of WCCQ within primary cooperatives. Employees must understand that relationship management is a key component of cooperative competitive strategy both to realize quality standards and to differentiate the cooperative as experienced by members and suppliers as something special.

*Conclusions*

Strategic Management starts with an analysis of the competitive environment and the cooperative purpose or mission (the big picture). Human resource management communicates the big picture and translates it in terms of recruiting, selecting, developing and utilizing human resources. In doing so the HRM department works closely with operations management devolving as much of the HRM function as is necessary to ensure flexibility and control resides with line management whilst retaining sufficient capacity and authority to monitor standards and provide specialist support when necessary. The agenda for operations management is set by the big picture.

Operations management combines technical and human factors to achieve customer satisfaction and to implement a strategy of continuous improvements led by responsiveness to customer needs. Communicating standards, training for application of standards and developing enabling HRM policies is the HRM contribution to the empowerment of operations management and the realization of the cooperatives' overall strategic objectives as defined by the big picture.

# Action points

1. List the strategic goals of your cooperative.
2. Do you have strategic goals defined for each of the areas in Figure 3.
3. Answer the following questions for each specified goal:
   - How have they been established?
   - When were they last reviewed?
   - How have they been communicated?
   - To whom have they been communicated?
   - How well are they being implemented?
4. Review your HRM policies and procedures in the light of your strategic goals using the framework in Figure 4.

# 5 Re-structuring Cooperative Organization and Process

*Chapter summary*

1. Cooperatives need to restructure to reposition themselves within their supply chain, improve economies of scale, develop technological capacity, gain market share and develop management resources.

2. Outsourcing and merger for the small and medium sized cooperatives with the additional option of acquisition for the larger cash rich cooperatives are the quickest ways of achieving these objectives.

3. The merger and acquisition strategy for growth and organizational development are not without risks. Without very careful prior analysis and planning they are likely to result in costly failures that most cooperative businesses just cannot afford to make.

4. In order to survive into the 21st century, however, most cooperatives will have to merge. The only other option will be forced closure.

5. Mergers must have tangible benefits for members and for all other stakeholders in the respective cooperatives. Communicating the benefits, and imperatives necessitating the merger or acquisition is an essential preliminary activity prior to the merger itself.

6. Uncertainty is a grave danger to organizational morale and to the continuation of good relationships with stakeholders. The investigation stage and the early negotiations stage are better undertaken openly.

   Everyone needs to know why merger partners are being sought and to be confident that no decisions will be taken without the fullest consultation and consideration of everyone's interests. All acquisitions, however, must ideally be undertaken on the basis of strict secrecy at all stages.

7. The detailed discussions prior to agreement in a merger between cooperatives needs to be undertaken in strict secrecy. Absolute secrecy must be the responsibility of all participants to the talks because no negotiating process can be successfully conducted in public.

8. Three principles guide all cooperative merger or acquisition negotiations. They are listed in order of priority and are guarantors of the nature of the outcome however secret the process:

   1) Ensuring the survival and growth of the new cooperative structure is the first priority;

2) minimizing and ensuring equitable sharing of any losses between stakeholders;

3) maximizing the commercial benefits for the expanded association of members and other stakeholders.

9. Cooperatives must have the flexibility to acquire private companies when necessary. But the management and organizational culture must become cooperative and additional structures/processes introduced to articulate the values of the parent holding cooperative.

10. Outsourcing to a private company should be undertaken where it can bring commercial or technical advantage:

- to gain access to management expertise and other resources;
- to free up internal resources for other priorities;
- to reduce unit costs. Only private firms who share the cooperatives' ethos and commitment to quality should be selected as partners.

*Introduction*

One of the principle themes of this survey has been the need for cooperatives to manage change. The pressures of changing environments, the need to re-define management/ board relationships and particularly the need to up-grade the role of professional management in the cooperative have been emphasized. Also the need to change the culture of cooperatives both in order to implement cooperative identity and regain competitive advantage in the market. All business organizations have been responding to the increasing competitive pressures of the global market utilizing their own versions of all these dimensions of change. In addition there has been a wave of restructuring through mergers and acquisitions. Another trend has been the thorough analysis of existing processes often resulting in the decision to out source in order to save unit costs or to gain leverage in terms of systems support, technology or skills.

Whatever the route taken, the result is the re-design of operations cutting out unnecessary costs and increasing capacity for more throughput. This approach has been known as Business Process Re-engineering (BPR) and along with the issues of outsourcing, mergers and acquisitions, it comprises the principal content of this chapter. The combination is far from accidental, any merger or acquisition that has real potential synergies for the cooperative will almost always require BPR-type approaches to maximize the potential gains from the merger or acquisition. Outsourcing on the other hand is often the way to re-engineer processes to release investment and management, reduce costs or gain access to new technologies or additional resources.

The discussion in this chapter logically follows on from the question of implementing WCCQ in Chapter 4 because re-structuring is often vital to ensure the best value for money to customers through working through the leanest possible organization. Unfortunately, the emphasis of BPR in the private and public sectors has been predominantly with cuts in staff. If the cooperatives are, however, going for growth this dismal result could be largely avoided. A commitment to continuous staff development as part of the programme of maintaining continuous improvement would enable re-deployment rather than redundancy. The environment identified in Chapter 1 suggests that for many communities and industries cooperative development means fewer and larger cooperatives rather than just creating more cooperatives. In many countries across many segments of cooperative activity the need for merger and rationalization is pressing both to gain economies of scale and to enable the organizational scope for the emergence of a professional management.

Cooperatives generally merge with other cooperatives trading in similar areas. Rarely do cooperatives willingly merge. Lay boards are reluctant to give up their status and authority and there are strong emotional ties to local communities and the fear of loss of control to the professionals when the cooperative gets too big. Rarely do cooperatives seek mergers to benefit their membership. Rather the avoidance of bankruptcy is the primary motive. Acquisitions of private companies are sometimes undertaken in order to enter new markets or to gain additional outlets to strengthen the cooperatives' presence in their existing market. Sometimes the acquisition is to get around legal restrictions on cooperative trade.

*Merger and acquisition*

The purpose for mergers or acquisitions are numerous but the principle reasons are:

- to realize economies in administration, distribution or plant utilization;
- to gain management and technical capacity, or to improve the capacity of an under performing company;
- to diversify into a business that has synergy with your existing business;
- to gain access to new markets or defend better your existing market;
- to gain access to improved value added at different stages in your existing supply chain;
- to asset strip and realize profits from the selling of undervalued or loss making assets to create a profitable, leaner company;
- cash rich businesses seeking fast growth find it easier and faster to grow by judicious acquisition of smaller but fast growing companies with new products and good management than to start up new businesses from scratch.

In the private sector acquisitions can become take over battles strenuously fought out between management teams where winner takes all and the previous shareholders clear out with their pot of gold. Meanwhile the employees, suppliers and other stakeholders watch as jobs and contracts disappear as the victorious predator seeks to get back more than they paid.

Very often mergers and acquisitions that are not contested where both management and shareholder are aiming at creating stronger more profitable businesses. However, things can still go wrong.

> "The largest failure rate that has been suggested is 100% (in Professor Julian Frank's major study of 300 companies over some 30 years) while the lowest suggested failure rate is 45% (in a five year study of UK and US take-overs). Well over two thirds of the corporate acquisitions examined by McKinsey earned less than the same amount of money would have done if it had been left on bank deposit !" [107]

Even allowing for the selectivity of a management consultant trying to drum up business there is no doubting that mergers and acquisitions do need careful preparation and considerable pre-planning to ensure that the objectives motivating the management are successfully achieved. Often the economic and commercial case ignores the human resource issues and questions of culture clashes as the two organizations try to unite.

This of course is where cooperatives have a built in advantage (in theory) when going for a merger. They have a common identity and a common set of values and purposes. Here is another commercial reason for the implementation by all cooperatives of the ICA Statement on Cooperative Identity. Such an identity where it is incorporated and articulated in cooperative organizational culture will greatly facilitate the process of merger between cooperatives.

When cooperatives identify the need to merge, there needs to be free and open discussions concerning the rationale for merging. These matters need open debate as all the stakeholders need to be carried forward in unity of purpose and the respective boards need to be committed to the achievement of a successful agreement. This first stage is vital to the rest of the process. The recognition of the real need to merge is a great concentrator of minds in the process of negotiating the terms of merger.

The stages of determining and achieving a successful merger are as follows:

1) Environmental analysis for the cooperative. Threats, opportunities, strengths

[107] Guptara, Prabhu S.: *A Model for Mergers and Acquisitions,* Seminar 1, National Conference IPM, 26 Oct. 1989, p. 1.

and weakness all need careful evaluation.

2) Selection of potential merger partners or acquisitions. Studying annual reports and other published information. Mergers or acquisitions may involve horizontal diversification or vertical diversification. Monitoring performance over time. This may mean holding preliminary exploratory, even informal discussions.

3) Detailed negotiations over terms of the merger.

4) Selling the merger to the stakeholders. Carrying the stakeholders and gaining their commitment to making the merger work is fundamental to the success of a cooperative merger.

More important than the stages are the principles that inform the cooperative management of each stage. In the private sector all such processes or merger or acquisition take place under conditions of the maximum secrecy. This is hardly surprising considering the threats of competitive bidding in an acquisition context and in this situation too the cooperative board and senior management just have to be trusted by the stakeholders otherwise the cooperative may find it gets unwelcome attention by its rivals to a strategic decision to acquire a particular company as a subsidiary. Without the operation of clear principles such secrecy and trust becomes problematic in terms of the cooperatives' democratic and community rooted values.

**Three principles for the conduct of mergers**

in order of priority:

1st Ensuring the survival and growth of the new cooperative structure.

2nd Minimize/equitable sharing of losses between stakeholders.

3rd Maximizing the commercial benefits for the continued association of members.

Fig. 5

Business success is based on the consistent maintenance of quality standards that match customer requirements. This cannot be achieved without the wholehearted support of employees, suppliers and carriers.

The principle of loss minimizing and equitable sharing of losses is essential to ensure stakeholder relationships and commitment is maintained during the difficult period of secret negotiation. Open communication about the realities of the competitive environment and the need for mergers will ensure understanding of the legitimate rationale for the merger in the eyes of all stakeholders.

After the enunciation of mission, principles and objectives comes the detail. Here teamwork is essential with study groups made up of board members and management. These groups will need to explore a wide range of issues of which those of a standard nature affecting all cooperatives are listed below in Fig. 6. Cooperatives involved in real life mergers will expect to extend and elaborate this list as the technical, organizational and commercial particularities surface and demand attention.

Whilst central discussions continue, the study groups will be reality testing around the areas listed in Fig. 6 below. Equal numbers from both parties should be maintained as far as possible in the study groups which should not be allowed to become too large. Co-chairs or leaders of each group is also a good idea or an equitable sharing of leadership roles between the parties across the range of study groups.

Tabling regular reports from the study groups will facilitate the progress and underpin mutual confidence between the parties. *The principle of open access to all relevant facts must govern the study groups work.*

In all other respects the study groups' work is also guided by the same three principles that govern the merger negotiations as a whole.

**Points for negotiating terms for a cooperative merger:**

- **Identification of positive benefits to customers/members arising from the merger/acquisition;**
- **identification of the process of merging boards and governance procedures;**
- **identification of the issues arising from functional integration and the potential cost saving that could be achieved;**
- **identification of the costs and benefits of technological and process integration;**
- **identification of the product/service synergies and cost savings and marketing advantages arising out of the merger;**
- **identification of opportunities and negative consequences of merger/acquisition for all stakeholders;**
- **identification of strategies for maximizing the gains and minimizing the losses to stakeholder groups;**
- **the development of a merger communications strategy towards all stakeholders to ensure the fullest understanding of the reason for the merger; how it will affect them (both the good news and the bad); and what is being done to compensate for any negative consequences.**

Fig. 6

*Business process re-engineering (BPR)*

Achieving a successful merger is not signalled by the agreement of the respective negotiating teams, nor the vote approving the merger at specially convened members meetings. Achieving a successful merger takes place after the formal merger has been achieved. Realizing the potential gains in the months and years following the merger is where success or failure is recorded. The reorganization and restructuring require more work than the study groups had time to achieve during the merger talks. These reports are the starting points identifying savings, synergies and the costs involved in the merger. The real analysis to turn potential into reality and then to find an even more cost effective way of achieving customer satisfaction takes place now. Before changes are hurried into they need to be studied for feasibility and to explore other possibly even better solutions.

The idea of BPR has been around since the 1980s and was popularized by Mike Hammer in 1990 in the *Harvard Business Review*. Hammer defines BPR as:

> " ...the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed."[108]

Cooperatives can add a further dimension to the performance measures Hammer lists, namely "involvement". From the human-centred approach of cooperative management it is clear that people and their relationships are fundamental to the achievement of improvements in performance. Actually Hammer recognizes this but sees this as merely a means. For cooperatives based on community and mutuality between stakeholders, involvement is more than a means, it is an end. Why? Because involvement creates that sense of community that is an essential part of our human nature. It is a good in itself (end) to be able to belong and to feel a sense of belonging in community.

It is as essential for us to have a job or role in community for our sense of self-worth and social identity. As a human good, involvement in community is an end in itself. Our BPR therefore requires us to manage and develop processes that create involvement as well as cut costs, improve quality etc. The reassuring thing for cooperative management is that management theories like the Human Relations approach (see Chapter 2) are clear that involvement is not a barrier but an essential precondition to achieving the performance criteria Hammer identifies. The fact that in the private sector involvement does not always have this result is because the private firm does not operate on the basis of mutuality whilst cooperatives do. Cooperative process following the WCCQ imperatives of continuous improvement based on customer focus and social-led added value must operate processes that ensure the involvement of the relevant stakeholders.

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[108] Hammer, Mike: "Re-engineering work." in *Harvard Business Review*, July-August 1990.

*The main steps in the process of BPR*

- Combination

This principle can take many forms. It could be the combining of jobs to make fewer jobs; bringing together people with different skills into one location to ensure elimination of lost time due to cross functional exchanges as orders or product gets processed; reducing the number of organizational boundaries to be crossed.

- Devolution

Reducing the number of steps that must be taken up the hierarchy in order to arrive at a decision.

- Rethinking

Here rather than adapt or refine existing practices, the idea is to abolish and re-design completely the existing processes. This is an attempt to identify and eliminate obsolete methods.

- Working for the totality

The approach tries to consider all aspects of the processes: technology, standards, procedures systems, controls, social organization, staffing policy, jobs, career paths, remuneration policy.

BPR can be viewed as an attempt to innovate in terms of operations management and control systems rather than in terms of new products and services. The reality is that both types of innovation are important for ensuring the cooperative remains competitive. The capacity within the organization to adopt both forms of innovation has to be developed. There is an old saying that "there is nothing new under the sun". There is some truth in this in as much as people with the capacity to innovate and to respond positively to innovation are people who have been developed. They are educated and skilled personnel with wide experience of a variety of organizations and contexts. Such people are self confident, capable of operating with a reasonable degree of uncertainty and ambiguity in the short term with highly analytic, decision making and interpersonal skills. Without proper management and staff development programmes that expose staff to new ideas, new approaches and a variety of organizational and environmental contexts, it is unlikely that cooperatives will be able to internally generate the innovative capacities to manage mergers and other restructuring exercises successfully.

One medium-term solution is for a heavy investment in cooperative management development. In the short term, the solution is for cooperatives to cooperate. In many parts of the world cooperative leaderships have already identified the need for merger, or amalgamation as it is sometimes referred to. Federals must urge primaries to consider merging. Primaries should group themselves into merger study groups and collectively invest in external consultancy to explore the costs and benefits involved in the decision to merge. Increased size and more sophisticated stakeholder/member involvement strategies must go together. If external consultants are used they need careful briefing on the cooperative context and purpose.

*Conclusions*

Cooperatives must recognize that they have to maintain their local community base to keep responsive to the qualitative issues on service delivery. At the same time they must achieve all the leverage and economies they can to stay competitive. Merger is an essential response for many cooperatives. Developing the will to merge, the management capacity to merge, and maintaining the links to the membership, require leadership and professionalism and an appropriate organizational culture.

Cooperatives that simply grow big and fall to the threat of managerialism will fail commercially as well as failing cooperatively. The commercial failure may not be sudden but having failed to capitalize on their best competitive resource (i.e. their unique cooperative identity and membership), it will be certain. Competition will remain intense and the capital resources potentially available to their rivals are too great for them to survive without a competitive stance that differentiates them and mobilizes their stakeholders. The cooperative identity provides that unique resource.

Shared culture and objectives is a factor that could greatly facilitate the smooth implementation of mergers between cooperatives that were value orientated rather than institutionally orientated. The emphasis on the democratic rather than the associational aspects of cooperation has created barriers to change. Emphasis on formal governance has left many members effectively excluded from involvement. The result of this is often the worst of all worlds - narrow parochialism from the lay leadership and low participation by the mass membership on the one hand, and a cynical management which only views membership as a handicap on the other. Today the techniques and the technologies exist to communicate, consult and involve huge numbers over huge distances on frequent occasions. Ensuring regular contact with the members *on terms that make sense to the members* and the other stakeholders, could ensure the cooperative enjoys leverage and locality post merger(s).

# Action points

1. Review your organizational processes. Should you be conducting all these functions yourself? Are there any possible organizational advantages in outsourcing some of these activities?

2. Set up a project team to review the competitive threats and opportunities that lie on the horizon. Do any of the factors highlighted suggest that a merger strategy might help meet the challenges?

# PART THREE

## Implementing Strategies, Policies and Processes for the Achievement of World Class Cooperative Quality (WCCQ)

# 6 Stages in the Delivery of World Class Cooperative Quality (WCCQ)

*Chapter summary*

1. Real quality management programmes require more than customer surveys and quality checks. Total Quality Management (TQM) requires continuous close relationships with customers, suppliers and employees. TQM to be effective requires leadership, a supportive organizational culture, and human resource management strategies.
2. World Class Cooperative Quality (WCCQ) develops TQM with the ingredient of added social value and protects TQM processes with cooperative values and purposes.
3. There are three phases in the programme for the introduction of a WCCQ. These are functional integration; stakeholder involvement and customer service.
4. Devolved responsibility, investment in training and development, performance related remuneration, clear standards and procedures and customer care are central to the operational aspects of quality management.
5. Members' commitment to the process means better management information, quicker problem identification and solution, and the best promotional medium in the marketplace (i.e. recommendation by word of mouth).

*Introduction*

In this chapter, I develop the specific operational framework concerning quality management in the light of the possibilities inherent in the new paradigm for cooperative management that I have described as "value-based management". I have argued that only where the characteristic of mutuality is present can genuine quality be expressed in terms that enable the management of stakeholder interests to be operated. Only then can quality result in a genuine partnership of interests between production, consumption and reproduction at the levels of the individual, the community, and society. All the literature on quality management admits that such partnerships have to be a strategic-level management objective.

In delineating the vital stages in the process of a mutuality-led quality management programme, I am attempting to conceptualize a new process of cooperative management and a new relationship between professional managers and lay members in the cooperative association that will ensure cooperative commercial and ethical leadership into the 21st century. From purposes, values, and principles we move to a more detailed discussion of the operational framework involved in implementing the philosophy of value-based management in the cooperative context. I call this World Class Cooperative Quality (WCCQ).

The achievement of cooperative competitive advantage lies in two directions:

- Externally, in the ability of the cooperative society to be perceived by the market and in the minds of the other stakeholders such as suppliers, carriers, trade unions etc., as an organization based on integrity and transparency of the motives with objectives of realizing the mutual interests of its stakeholders in so far as they are compatible with the realization of customers' interests. The safeguard preventing exploitative relationships arising in the process of realizing customers' interests lies in the social dimension that cooperatives always bring to their analysis of customer needs.
- Internally, because the social objectives and mutual status enables cooperation within the organization to be maximized. Whether it is optimized in terms of results will depend on the quality of the management and skills of all concerned. Nevertheless, a superior potential for organizational development and genuine team building exists in the cooperative context. Employees will identify with an organization that works for and reflects the values and interests of the community because often the employees themselves will be part of that community as well as serving it. Mutuality enables cooperatives to develop less stressful and more socially constructive working relationships with their employees and suppliers based on the perception of trust and legitimacy of cooperative management.

The realization of this potential competitive advantage, however, requires the cooperative management to operationalize WCCQ in terms of design, conformity to specification, and cost. This itself requires careful analysis and understanding of the nature of the entire logistics chain involved in the configuration and delivery of the given product or service provided.

*In providing what the customer requires technical and service standards are built in relating to the utility in use, the accessibility when needed, the pleasurable experience when being used and the social added value recognized as being contained in the product or service provided. For this to be successful all the stakeholders need to be informed, developed, involved and heard as to the quality design, specification and cost issues for them.*

The key issue remains and always will remain in a free market what the customer wants - as the lead issue in determining quality. But mutuality requires the customer to accept responsibility for quality as well as demand it from others. This is not a matter of lecturing the customer but of informing them of the conditions and standards to which WCCQ is working towards at all stages in the particular logistic chain on which a given customer provides the final end link.

*Communicating standards and values to customers requires a careful analysis and understanding of the customers' values, attitudes and perceptions. These and only these can inform the starting point in the design and marketing of the product or service including the identification of the critical social value added required by the customer. It is these values that must form the organizations' development and culture, it is these values that must be transmitted to other stakeholders up and down the logistics chain.*

How can we be sure that our final end-user customers' values and attitudes will provide a satisfactory basis for the development of WCCQ? The answer is to be found in the principle expounded in Chapter 2 of the multiple role of work and labour. We must remember that customers are also citizens, parents, workers, etc. and if we ask them questions that fall outside the immediate specific product/service focus we get a different and more accurate, because less narrowly focused, view of what the customer requires in general. If we then interpret these responses by the customers to our specific product or service we have generated added value for those customers to that product or service, *in addition* to the technical and price utilities that our usual market research and product service development processes help determine.

This is one vital aspect of the process of innovation in the cooperative. It is innovation based on social values and needs that adds value to the product or service to the consumer. This leads to rising market share and lower unit costs for the cooperative. This added cooperative value provides a real competitive advantage as long as cooperatives do not try to substitute these macro standards for the product service-centred technical and price dimensions. Excellence in quality matching to customer requirements must be across *all* dimensions of product service standards.

Once customers become aware of the wider stakeholder context involved in the provision of the goods and services they consume, so will they be more willing and may even be eager to take responsibility for the mutuality-based quality standards built into the WCCQ product or service. This itself will help to encourage continuous improvement in quality standards right along the logistics chain.

### *The specific role of the Operations Manager*

Management is not a single category of people. Managers operate at very different levels within any organization. Generally these different levels are represented within the simple categories of top, middle and junior or supervisory levels. The level of management affects the form of involvement in strategic, tactical and operational planning that they engage in and the basic management tasks of planning, organizing, directing and controlling. The effectiveness of communications back and forth between levels and across functions and between organizations will determine the quality of the decision making in respect of linking operational outputs to customer needs.

It is in the effectiveness of the conversion of resource inputs into outputs matching customer needs at each of the various links in the logistics chain that is the key responsibility of the operations manager. In order to achieve the goals of the efficient use of resources and processes in order to achieve the identical matching of outcomes to customer requirements, the operations manager must have competencies that are sensitive to the multi-disciplinary nature of management and organization. Technical skills and product/service knowledge need to be supported by skills in HRM and customer awareness.

*The strategic role of operations*

We can recognize that most commercial or industrial businesses today are dependent for quality standards on a very wide range of transformations within and between their organization and other organizations involved down stream in their supply chain. The overall strategic impact of these operational transformations began to be recognized in the 1970s as market-led corporate objectives began to be translated into operational strategies for their realization. It is not just in the grand design or big idea that strategy is located. Once it is recognized that customer-led quality standards are not static but require a continuous incremental search for improvements, then the significance of operations management becomes apparent.

Thus it can be seen that operations-led continuous searching for improvements that help to ever more closely match changing customer requirements becomes a key competitive weapon. It will not do to leave the role of operations in fulfilling the business strategy poorly defined. Without complete control of the focus and implementation of existing activities, there cannot be a secure basis for the development of the business into new areas.

At each step and in relation to each partner or stakeholder the macro and micro-level values and issues need to be identified and reconciled through communication, dialogue, consultation and negotiation. The micro-level issues will be product/service market and function specific. It must be continuously stressed that these product/service market and function specific matters must be attended to with as much rigor as ever. Nothing in the value-led approach detracts from the ethical imperative of providing the product or service with those features, specifications and price level desired by the customer.

The macro-level quality feature to be built into the product or service in addition to the product/service specific quality issues will be increasingly driven by the following objectives:

- Sustainable development;
- waste reduction and management;
- energy efficiency;
- employment creation;
- social justice;
- social solidarity;
- community development.

To achieve these macro standards will almost certainly require additional operational procedures at all stages in the product or service supply chain to ensure compliance. The collaboration and commitment of suppliers and employees will be crucial to this undertaking as it is for all other product service standards. This is not simply a matter of contractual terms for suppliers. It is a case of establishing working relationships on the basis of detailed operational agreements. Such agreements can only be successfully constructed on the basis of shared understanding of mutual expectations.[109]

*Steps in the introduction of World Class Cooperation*

The items in Fig. 7 below, encapsulate the main subject headings for WCCQ grouped into three overlapping phases. The first phase requires functional integration. Marketing, R&D, operations and all the stakeholders contributing to those functions must be working together in sharing information to achieve the best possible match between the customer and the product or service provided. What phases 2 and 3 in Fig. 7 below are saying is that whatever the brilliance of the promotional strategy, and however focused has been the marketing that underpins it and however astute the strategic alliances, mergers or acquisitions that have been embarked upon, the fact remains that competitive advantage can only be maintained by the consistent delivery of products and services at customer-led standards of quality, price and access.

Thus quality programmes and operational management are central to the realization of market leadership in whatever industrial or commercial/service sector the organization is trading in. Below we will explore what is involved in broad terms at each of these phases.

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[109] Thomas, Terry: "Inclusive Partnership: The Key to Business Success in the 21st Century", *Journal of Cooperative Studies*, Vol. 30. No. 1, Manchester, May 1997, pp. 16-17.

**Phase 1: Integration**

*Research*

The adaptation and development of the cooperatives human resources, technologies, products, services and systems must be driven by a thorough analysis of the

| | |
|---|---|
| *competitive market* | How do we define our market? |
| | Who are the main players? |
| | Are there any substitutes that we need to see as threats to our product/service? |
| | How do our unit costs compare to our rivals? |
| | What trends can we identify indicating how the market is developing? |
| | How effective are our logistics compared to competitors in terms of availability and cost? |
| | What is the growth potential in our existing markets and do we need to find new markets or substitutes? |
| *technological context* | That new products/services are available or likely to become available as a result of new technology ? |
| | How can we improve existing products and services by applying new technology? |
| | How can new technology reduce our costs? |
| | How can we use new technology to improve our communications, information and decision-making capacity? |

| **Steps in WCCQ** | **Operating Principles** |
| --- | --- |
| **Phase 1**<br>Research<br>Design<br>Development of production and delivery processes | **= Integration** |
| **Phase 2**<br>Communication<br>Training and development | **= Involvement** |
| **Phase 3**<br>Customer focused implementation<br>Continuous improvement | **= Service** |

**Fig. 7: Implementing World Class Cooperative Quality (WCCQ)**

*customers product/ service expectations*

How are we performing in the customers view and can we improve the customers' satisfaction?

Are our after sales support services up to customer needs and expectations?

Are there any additional features we can include within customer cost criteria to give the customer added value?

In operational terms have we built in those social, environmental, and ethical standards identified as important by our customers?

*customers socio-economic and environmental needs* How are we perceived to be performing on the macro value-added factors?

Are we missing any others?

Are we keeping our information on the issues and the standards up to date with changing socio-economic and environmental agendas?

*Product/service development and the development of the production or delivery processes*

Membership based organizations have perhaps a potential to dig deepest into their customers' attitudes and needs. Where there is a strong sense of membership identity with the organization, the toleration of questions and the response rates and the level of detail can be expected to be higher than the average consumer survey. Cooperatives will, however, do well to never rely solely on membership surveys and member focus groups. It is important to seek the views of non-members and potential members. It is also important to recognize that finding new markets to contribute to overall financial viability is important in remaining competitive within the cooperatives' areas of core business. Design needs to be customer led.

Because of the need to incorporate social value-added standards, as well as ensuring greater efficiency in implementation in general, product/service design should never take place in isolation from process design. We need this integration to ensure a right first time, no hitches launch and to ensure that the process can cope with the standard specified in the product/service design. If process design is ignored during the stage of product service design, then implementation may be less effective or delayed and vital social value added may be scarified. Without a speedy response to product/service selection the organization loses out to rivals that are clearly more responsive to changes in customer requirements.

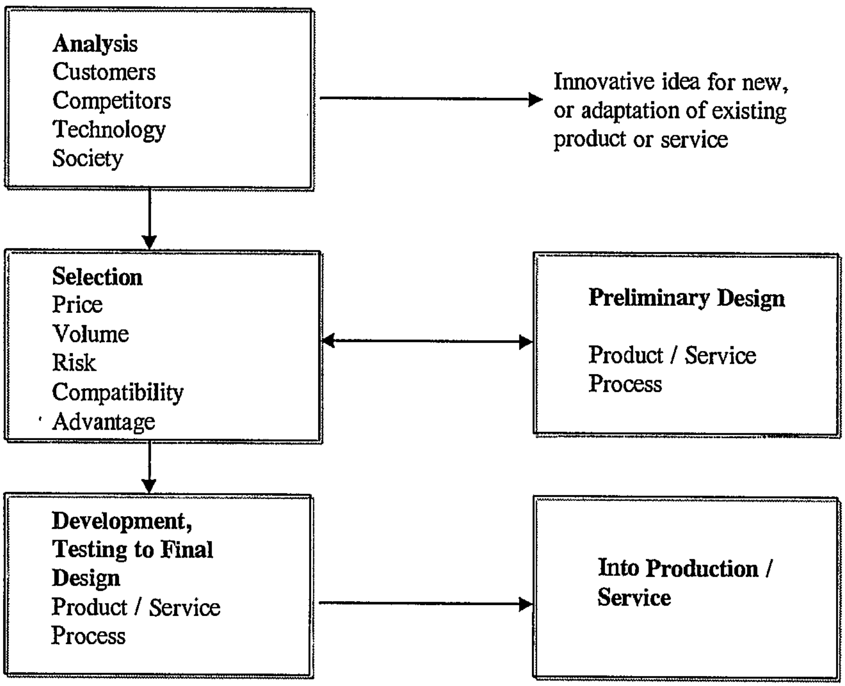
Good information on product/service life cycles can enable organizations to recognize the right time to introduce new products or revise existing designs. The customer surveys and design stages involve getting important answers to questions of criteria for product selection from which the choice of product/service can be made. This also involves product specification, project briefing and evolving a solution to the problems thrown up in product selection. Product development and testing and legal issues also have to be considered. These are not distinct stages but rather a series of problem identification and solution interactions within the project team. We will briefly consider the three stages involved below:

*Product/service selection*

Good product/service selection is one of the key factors in ensuring that competitiveness is achieved or maintained. "You should only produce what you can sell" is based on the marketing approach to product service selection. On the other hand, customers do not always know what they may like to acquire as a result of innovations in the new technology areas which leads to the approach that sees marketing as selling what is available rather than determining what is required. Elements of both perspectives will need to be integrated in most organizations' policies towards marketing. In the cooperative context, these two elements are further required to pass through the test of the social needs of the customer.

In whatever emphasis is taken, considerations as to whether to go into production will depend upon expected selling price, sales volume, operational compatibility, competitive advantage, technical risk, fit with corporate strategy, product quality and expected return on investment. The latter is in part a question of the perceived product life cycle. How long do we anticipate it will take to move our proposed new product or service out of the introductory phase into growth? How fast will it achieve high growth and move into its maturity phase? How long do we anticipate the product or service staying in this stage of high returns and profitability before entering its decline? Over what time period is the decline expected to last?

**Fig. 8: Stages in product development**




### Phase 2: Involvement

*Communication*

Each step requires us to share appropriate information with all the stakeholders in order to: define separate standards, procedures; key data; objectives and in order to establish and build relationships with and sometimes between the cooperative organizations key stakeholders: suppliers, employees, members and customers. The more inputs are required in the production of the commodity or service, the more complex the network of relationships becomes along the supply chain and the more important it is to have properly integrated standards and processes.

A shared culture based on quality, mutuality, community and customer care is a vital component in facilitating communication at this critical level. In the book, *Restoring our Competitive Edge*, a 4-stage process is suggested for implementing the new quality paradigm, in two negative and two positive steps:

1) Minimize the old culture - its negative potential that views manufacturing as neutral in terms of influencing competitive advantage;

2) minimize the influence of the old idea that external parity of economies of scale was the aim by following industry practices.

enabling:

3) The provision of an internally supportive culture that underpins business strategy and;

4) providing the possibility for pro-active development of strategies to lead to competitive advantage not just in terms of efficiency gains but also in terms of quality and service gains.[110]

This requires a culture where people desire to listen and respond to customers' needs. In cooperative terms, this desire is not going to be secured simply by money. People need to feel good about what they do. They need to feel the legitimacy of what they do because it forms an important component of their self image. Thus the macro values that help to define added value for cooperative products and services for customers, also provide a community of values. This community of values links employees and other stakeholders in the association to the end customer. It reinforces commitment and the sense of social legitimation that is a core component in the overall motivation of stakeholders to contribute to the continuous improvement of the product or service being provided.

*Training and development*

WCCQ must be taught at all stages from induction through the normal development of work competencies to the attitudinal and motivational development of staff. Without this, there will not occur the increase in individual's sense of personal involvement. Managers, employees, both line and service professionals, suppliers, and carriers need to understand clearly what the changes mean for each individual and their ways of working. Much of the re-orientation is about culture, values and attitudes. But there is the harder edge of performance criteria to be considered.

Customer-care programmes can involve a high element of risk to management because of their visibility if things go wrong. However this is not an argument for ignoring customer care but for ensuring that the organization gets it right first time. This requires careful and close monitoring of customer reactions and needs followed

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110 Hayes, R. H.,Wheelwright, S.C.: *Restoring our Competitive Edge: Competing through Manufacturing*, Wiley, New York, 1984.

by a flexible and fast response to these. This is the main reason why organizational culture giving employees an orientation that is customer satisfaction centred, is essential for success.

The key to success in setting manufacturing and factory level objectives is:

- To make them appropriate to the various levels in the organization;
- to ensure they reflect the key result areas of that level, and,
- quantify them to enable clear measures of performance against objective. There is a mix of qualitative and quantitative in all these. Starting with:
  - Corporate mission statement and objectives (highly qualitative);
  - global manufacturing strategies (quantitative and qualitative);
  - individual productive/service unit objectives (highly quantitative and qualitative). These later include targets across key indicators including costs, productivity, quality, inventory and service.

Training for innovation and quality leadership involves developing courses covering:

- The new values and cooperative mission statement;
- the strategies and partnership relationships with suppliers and carriers,
- the new standards, procedures and processes being introduced;
- the new working methods and the individual's role in customer care and continuous improvement programmes.

The most important concept that training has to get across is that learning has to be customer-service driven and is a continuous process.[111]

**Phase 3: Service**

*Implementing WCCQ*

There are five key factors central to the implementation of WCCQ. It is important to realize that implementation is not just the end of the process or cycle but also the start.

*Leadership*: Top management must recognize the strategic importance and allocate resources and ensure commitment from lower levels of management if WCCQ is to work.

*Cooperative wide perspective*: WCCQ incorporates all aspects of the

[111] Daft, Richard L.: *Management*, The Dryden Press, London, 1998, pp. 59-61.

business and needs to involve all aspects to be effective.

*Views on quality*: Customer satisfaction has to be the approach. Companies are not going to achieve competitive advantage by focusing on defects and mistakes but by the ever closer matching of customer needs to operational outputs.

*Customer and community focus*: This is the primary and driving focus of WCCQ. The aim is to respond as soon as possible in order to achieve the quickest possible incorporation of customer micro and macro requirements into the product service being supplied. This requires positive attitudes ensuring careful listening for changes in customer requirements and a clear plan of action.

*Membership*: The lay directors represent the members of the cooperative society. These are the stakeholders who own the assets of the cooperative. It is to serve their needs in the marketplace that the cooperative was established and upon which its performance and success are ultimately judged. The management is there to ensure that the maintenance of the stakeholder relationships ensures the best outcome for the long-term benefit of the cooperative association of members. By working as a team on the basis of the cooperative identity, lay members and their elected directors have a vital role in the achievement of WCCQ:

- As customers, members' information can support the customer-care programme.
- As suppliers (farmers, fisherfolk and workers), they can often respond quickest to customer needs and understand best the operational costs to be reduced and constraints to be overcome.
- As members, they have a double rationale for collaborating in quality and customer care programmes. The members may well be able to give more and better information and over a more consistent and longer time frame than might be expected to be achieved in terms of people who are customer or employees but not owners.
- One reverse benefit of WCCQ for the lay board and membership is that it can become a tool for improved governance. WCCQ enables an improved level of membership control over management because the criteria of cooperative success is meeting transparent standards clearly articulated of customer satisfaction at micro and macro levels.

*Tools and techniques of TQM*

There are a range of techniques for the monitoring of quality standards these techniques will not all be appropriate in every context but they all emphasize that measurable, quantifiable standards must be identified and a careful record of performance against standard needs to be maintained. If discrepancies occur then immediate action must be taken to identify the cause and rectify it.

- *Statistical process control*: Used as the term implies it is a technique for the quality control of processes by key variables. This measures significant changes against the mean and range of spread across variables in the samples taken.
- *Acceptance sampling*: Instead of assessing each batch for acceptance or rejection a sampling approach is adopted to ensure an acceptable quality level (AQL) is achieved.
- *Continuous quality improvement*: In order to improve, there needs to be a regular analysis of defects or problems. As they occur they need analysis through cause and effect charts, and to be plotted by histograms and Parato analysis and scatter diagrams etc.
- *Company wide quality control*: This covers customer service; quality of management; quality of labour; quality of materials and incoming components and inputs; quality of techniques and processes and quality of equipment.
- *Quality circles*: Groups of employees coordinated by a facilitator with close liaison with management. There is a considerable front end cost in training in quality matters and problem solving and group dynamics in order to facilitate the effectiveness of quality circles. Identification of problems, researching information developing solutions and reporting to management are the general stages that a quality circle will go through.
- *Membership and customer consultation*: This must involve suppliers and carriers with whom the cooperative depends for the delivery of the quality of service or product that its customers and members require. Consultation is both a formal and informal process. Surveys and meetings provide formal opportunities but the continuous listening and responding by employees, suppliers, and carriers to the day to day needs of the customers and members provides the foundation stone for the achievement and maintenance of market leadership.

*Quality certification and accreditation*

Many companies wanting to compete as suppliers are finding that quality standards are being applied to them and in order to have a chance to tender for business they are having to achieve an industry standard that is laid down by accreditation bodies like BS 5750 and ISO 9000. These two accreditation bodies' accreditation process covers twenty areas of concern. Cooperatives cannot afford to ignore internationally recognized quality marks and must seek to achieve these independent assessments of their quality programmes. However, I have argued that WCCQ has important social added value not found in the average TQM or WCM company. The added value in commitment or environmental, social and economic objectives needs to be professionally and constantly presented to the market in order to provide for a clear differentiation in the marketplace. The regular independent accreditation of the added social value provided by cooperatives is an essential component of any bonafide WCCQ programme. It is the only way to ensure that real cooperative and general ethical and environmental standards do not degenerate into the PR mode of ethical management which manipulates data (rather than striving for added value) in a way that is essentially misleading and smacks of opportunistic bandwagon jumping.

**Fig. 9: Twenty areas for analysis on the road to BS 5750 and ISO 9000 Accreditation**

- Management responsibility
- Quality systems
- Contract review
- Design control
- Document control
- Purchasing
- Purchaser-supplied product
- Process control
- Inspection and testing
- Inspection, measuring and test equipment
- Inspection and test status
- Control of non-conforming product
- Corrective action
- Handling, storage and delivery of materials
- Quality records
- Internal quality audits
- Training
- Servicing
- Statistical techniques

These two accreditation bodies, BS 5750 and ISO 9000, cover between them twenty areas of concern which they need to review. Fig. 9 lists the areas that cooperative quality programmes must have secure and monitored standards and processes in operation.

To meet WCCQ standards each one of the areas of quality control in Fig. 9 above will be informed not only by environmental standards (increasingly these will inform all forms of business definition of quality standard), but by the values of community and mutuality that are uniquely present in genuine cooperative business standards.

*Conclusion*

World Class Cooperation will be achieved through the successful continuing integration of macro standards and micro standards of quality through a partnership between stakeholders. The stakeholders will continue to have conflicting particular interests but in a context of increasing value-based consensus on macro-level objectives, a sense of the overriding commonality of mutual interest will grow driven by a common ethic of customer satisfaction reinforced by a highly competitive and increasingly informed market.

Management will be not only business leaders but social leaders responsible for the agreement of quality standards and their delivery through the process of relationship management across the diverse spectrum of stakeholder interests and responsibilities. In this context there are increasing opportunities for membership-based cooperative organizations to make the pace, attract the best management, and excite public attention and support. Quality needs partnership and partnership requires cooperative relations based on mutuality. The time may be approaching when cooperation can become synonymous with quality.

# Action points

*In the light of the results of the feasibility studies undertaken (Chapter 3 Action points)*

1. Plan the introduction of WCCQ on the basis of the three phases for the implementation of WCCQ.
2. Initiate a review of existing relationships and respective organizational cultures.
3. Review all existing quality standards and as part of the research identify the gap between current performance and customer expectations.
4. Identify the key results required to meet members' and customers' requirements and the critical systems responsible for the delivery of those results.

# 7 The Role of Cooperative Values and Quality in Re-Positioning and Re-Engineering for Competitive Advantage

## The Co-operative Bank case study

*Introduction*

The Co-operative Bank was founded in 1872 under the name of the Loan and Deposit Department of the Co-operative Wholesale Society.[112] For most of its history it acted as the banker for the cooperative movement once the UK Industrial and Provident Society legislation was amended to permit this. It took on trade union accounts in the first quarter of the 20th century and opened its first retail outlets. In the late 1940s and 1950s the Bank's growth accelerated as it attracted business from the local authority sector. In order to improve the creditability of the Bank the CWS agreed to incorporate the Bank under the Companies Act and the UK Parliament passed the Cooperative Bank Act in 1971.[113] The Bank invested considerable resources in order to establish itself as a clearing bank and established a reputation for innovation by introducing the first commission-free banking in the UK and later bringing in interest bearing current accounts.[114]

By the 1980s conditions in retail banking had become more competitive for the Co-operative Bank. Deregulation had enabled building societies to offer personal bank accounts with check books and a range of other facilities. The big retail banks had re-focused their business back to the domestic retail market to try to recoup losses arising from bad debt abroad. They were able to match the free banking offered by the Co-operative Bank which of course denied the bank its main differentiation in the retail banking market. The Bank went into a period of stagnation and falling profitability as the large clearing bank overheads and heavy payroll costs arising from the period of growth coinciding with a period of high inflation led to losses in some parts of the Bank's operations.[115] The big four retail banking giants had a far greater market presence than the Cooperative Bank which still only had a minuscule share of the retail banking market. The Bank was caught between the big banks and the big

[112] *Wilkinson, Adrian*: "Changing Fortunes at the Co-operative Bank", Journal of Cooperative Studies, No. 71 (Manchester, 1991), p. 5.

[113] ibid., p. 5.

[114] ibid., p. 6.

[115] ibid., p. 7.

building societies. It did not have the outlets to be a significant presence in the high street, nor the capital to innovate, and its cost structure meant that it could not compete on price.[116]

> "......the Bank could no longer compete across all fronts and be all things to all men; secondly ..... a rapid growth in the customer base was necessary to ensure long-term survival; thirdly..... the Bank needed to find itself a niche or secure a long term positioning strategy." [117]

The Bank did have some strengths. It had become the second largest provider of banking services to the local authority sector.[118] It had an extensive network of retail-based banking facilities in the larger cooperative stores.[119] But the consumer cooperative movement itself was in decline and indeed the cooperative content of the Bank's business had shrunk to 10% of the total business - this despite the fact that the banks lending to the cooperative movement stood at record levels. The cooperative deposits with the Bank represented only 4% of the Bank's liabilities portfolio.[120] The Bank could have been seen as ripe for a take-over bid and become another area of cooperative retreat.

*Customer survey*

Instead, in the face of even tougher competitive pressure at the beginning of the 1990s, the Bank took the opportunity to develop its strategic profile, a three year rolling strategy based on a continuous review of the market in which the Bank operates.

> "the Bank's basic strategy is to;
> - to focus on its core business activities
> - enhance the quality of its customer relationships and service
> - improve the economics of its business."[121]

In looking to find a basis for differentiation in its positioning in the marketplace the Bank asked the question "What makes the Co-operative Bank unique in the financial

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[116] ibid., p. 8.

[117] ibid., p. 7.

[118] Davis, Peter and Worthington, Steve: "Co-operative Values: Change and Continuity in Capital Accumulation. The Case of the British Co-operative Bank," in *Journal of Business Ethics 12:61-71*, Kluwer Academic Publishers, Nov. 1993, pp. 61-71.

[119] ibid. p. 65.

[120] ibid. p. 65.

[121] ibid. p. 66.

services market?"[122] In answering this question the Bank bucked the trend in British cooperative financial services and sought to incorporate and emphasize its cooperative values into its commercial strategy and practice.

*The Bank's Mission Statement*

"We, The Co-operative Bank Group, will continue to develop a successful and innovative financial institution by providing our customers with high quality financial and related services whilst promoting the underlying principles of cooperation which are......

| | |
|---|---|
| Quality and excellence: | To offer all our customers consistent high quality and good services and strive for excellence in all that we do. |
| Participation: | To introduce and promote the concept of full participation by welcoming the views and concerns of our customers and by encouraging our staff to take an active role within the local community. |
| Freedom of association: | To be non-partisan in all social, political, racial and religious matters. |
| Education and training: | To act as a caring and responsible employer encouraging the development and training of all our staff and encouraging commitment and pride in each other and the Group. |
| Cooperation: | To develop a close affinity with organizations which promote fellowship between workers, customers, members and employers. |
| Quality of life: | To be a responsible member of society by promoting an environment where the needs of local communities can be met now and in the future. |
| Retentions: | To manage the business effectively and efficiently attracting investment and maintaining sufficient surplus funds within the business to ensure the continued development of the Group. |
| Integrity: | To act at all times with honesty and integrity and within legislative and regulatory requirements." |

In the British context this was a brave step in the face of a poor public image of

[122] ibid. p. 66.

consumer cooperation which tarnished the whole image of cooperation in the public mind. This was particularly the case among the younger generation who had virtually deserted consumer cooperation by the late 1970s. The Cooperative Insurance Society had long since dropped the term cooperative and instead referred to itself simply as CIS Ltd., whilst the Cooperative Permanent Building Society had changed its name completely to the Nationwide Building Society. In addition, one of the biggest cooperative retail societies had also dropped cooperative from its logo to become simply CRS Ltd.

It was in this context that the Co-operative Bank sought to establish a cooperative difference based on its values. It did not just try to reinvent the translation of cooperative values in terms its customers and potential customers might recognize and identify with. Its new mission statement was the result of one of the largest and most detailed market surveys of customer attitudes and opinions ever undertaken by a British cooperative organization.

The survey found that 84.2% agreed that the Bank should have an ethical policy with only 5% surveyed feeling that ethics had nothing to do with banking. The broad social and environmental questions that concerned the Bank's customers were human rights (90%), the arms trade (87%), animal experimentation (80%), the fur trade was opposed by (66%) and tobacco manufacture (60%). There was considerable customer concern with environmental issues including pollution, energy conservation and recycling.[123]

*The Co-operative Bank's Ethical Policy*

It was in the light of this research that the Bank codified its ethical stance in its Ethical Policy in 1992.[124] The Bank's position is that:

"...... 1. It will not invest in or supply financial services to any regimes or organization that oppresses the human spirit, takes away the rights of individuals or manufactures any instrument of torture.

2. It will not finance or in any way facilitate the manufacture or sale of weapons to any country which has an oppressive regime.

[123] *The Cooperative Bank Puts Ethics into Banking*, The Cooperative Bank Press Statement, (1 May 1992).

[124] ibid.

3. It will encourage business customers to take a pro-active stance on the environmental impact of their own activities.

4. It will actively seek out individuals, commercial enterprises and non-commercial organizations which have a complimentary ethical stance.

5. It will not speculate against the pound using either its own money or that of its customers. It believes it is inappropriate for a British clearing bank to speculate against the British currency and the British economy using deposits provided by British customers and at the expense of the British tax-payer.

6. It will try to ensure its financial services are not exploited for the purposes of money laundering, drug trafficking or tax evasion by the continued application and development of its successful internal monitoring and control procedures.

7. It will not provide financial services to tobacco manufacturers.

8. It will continue to strengthen its customer charter, which has already established new standards of banking practice through adopting innovative procedures on status enquiries and customer confidentiality, ahead of any other British bank.

9. It will not invest in any business involved in animal experimentation for cosmetic purposes.

10. It will not support any person or company using factory farming methods.

11. It will not engage in business with any farm or other organization engaged in the production of animal fur.

12. It will not support any organization involved in blood sports, which it defines as sports which involve the training of animals and birds to catch and destroy or to fight and kill, other animals or birds."

The Bank is committed to the regular re-appraisal of its customers' views on these and other issues and has undertaken to develop its ethical stance accordingly. By 1994 the Bank's ethical involvement with its customers had enabled them to support charities through their credit card.

Each quarter the Bank asks its credit card customers to vote for which national charities should share in the pay-out and also to nominate some of their local charities for support from the fund.

> "....5p of every £100 spent on the Bank's visa cards will go to national charities and local good causes. With 700,000 credit card customers, the Bank is confident that it will raise over half a million pounds in the next twelve months"[125]

The amounts of money were perhaps not important in terms of the impact. The National Westminster Bank, one of the UK big four, had a corporate social responsibility fund of over £14 million at the time. What made the Co-operative Bank different was that unlike the National Westminster it had an ethical policy based on the involvement of its customers which the big four, who profited greatly from investments in such unethical activities as the arms trade etc., could not match.

The Bank's customer surveys, however, included a very clear analysis of customer needs in terms of hard banking services. The Bank, for example, took a strong stance on customer confidentiality. Another important innovation in terms of hard banking services was the Bank's introduction of the first charge-free Visa Gold card in 1991 (which was in the tradition of its earlier leadership with charge-free current accounts in 1973 and interest on current accounts in 1982). At a time when the Bank's leading competitors were introducing annual charges on their gold cards of up to £80.00 the Co-operative Bank Gold Card was guaranteed to be "free for life".

*The Co-operative Bank Customer Charter*

Chapter 1 Customer Confidentiality states that:

> "from 3rd June 1991, the Co-operative Bank will no longer answer status enquiries made to us by other financial institutions without our customers' explicit written permission."

The Bank was confident in this path breaking stance because it was backed up by clear customer research. The Bank wrote in its introduction to the Charter, "You may well read of hostility directed at us from other financial institutions because of this stance. Our research indicates we can continue to rely on the support of our customers".

The ethical stance was further strengthened when the Bank announced its

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[125] The Cooperative Bank Launches Charity Divi, The Cooperative Bank Press Statement, (30 March 1994).

commitment to take what it called a "balanced position with all stakeholders."[126] The Bank acknowledge seven "partners" (equivalent to stakeholders) who had a right to expect something from the Bank. The shareholder, (CWS Ltd.), customers, staff and their families, suppliers, the communities the Bank serve, society as a whole and past and future generations. The Bank went on to issue a document that attempted to measure and codify precisely how it could best achieve a balance in serving all these interests and has produced its first fully audited report *The Partnership Report* in 1998.[127]

### *Media strategy*

The Bank's resource constraints meant that it could not possibly match the enormous investment of its rivals in advertising. Because of its careful market research, however, it was able to very precisely identify those groups that might be well disposed to its message and focus its campaign directly on these groups. The 25 to 50 year old age range in the ABC1 ranges of social classes represented the highest value customers. The Bank already had a significant proportion of current account customers drawn from the caring professions, teachers, nurses, doctors and finally the Bank was aiming to attract the broader group of socially concerned consumers, recognizing that there was some overlap between this last category and the former target groups.

The quality press and three regional TV stations that operated in the areas where the Bank was strongest were selected for the initial campaign. The results of the TV advertising were so positive that in the second phase of the media campaign, the Bank switched more of its total budget to TV and extended its TV advertising to the London Region. The Bank recognized that certain films with strong social messages themselves would be more likely to attract an audience sympathetic to the Bank's message than the "blockbuster" movies. For example it used its advert concerning the Bank's refusal to invest in oppressive regimes to trailer the movie depicting the life of Malcolm X. What had been a net outflow of current account customers was as a result of this campaign turned into a net increase by 1993.

Although aimed at the current account retail end of the Bank's business, there was a strong up-turn in the Bank's business accounts in those areas with strong affinity to the Bank's position. The Bank's personal savings deposits rose by 49% between May 1992 and December 1993 and corporate current accounts rose by 116% and their deposits by 161%. These increases where achieved at a time when the Bank's retail outlets were contracting with 200 retail-based handy banks closed. Most significant

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[126] A Stake in our Future, In Touch, Spring 1996, The Co-operative Bank, Manchester.

[127] ibid.

of all, the Bank bucked the overall market trend by increasing its new personal current account holders when the market as a whole was declining. Market research showed that The Ethical Policy was joint first among the reasons given for opening a current account with the Bank.

### *Outsourcing* [128]

Costs remained a problem to be addressed, and here the Bank did not flinch from taking decisions to manage its business in the most cost effective way possible commensurate with its ethical programme. In order to be competitive on costs it needed outside expertise to manage some aspects of its operations more effectively than could be achieved in house. Too often the cooperatives do not seek to identify and distinguish between core business and peripheral activities even when these peripheral activities can bite heavily into the bottom line. John Folwer, Head of Technology Services at the Co-operative Bank at the time of change, spelt out the criteria for outplacement as being based upon the desire to leverage the investment of other companies in terms of either technology, human resources or process efficiencies. The Bank identified 22 process that might be suitable for outsourcing. The Bank's analysis of its business processes placed them under three headings:

- *Supportive processes*:

Better performance is unlikely to contribute to the Bank's competitive position. Here the Bank would search for the least cost option both internally and externally. Supplier relations would be managed mainly on cost criteria with some qualitative requirements

- *Strategic processes*:

Here were identified those processes that the Bank recognized would effect its competitive position. Yet for the reason of priorities and/or lack of resources, the Bank may not wish or be able to allocate sufficient resources to manage the process. In these cases the Bank sought leverage on the investment of other companies in that particular market area. Supplier relationships handling strategic processes are developed over longer time scales and require a real partnership approach. Short horizon contracts offer neither value nor security in these situations.

- *Core processes*:

The third and final category are primary activities of the business and priority areas of investment for competitive leadership over which the Bank needs to retain

[128] Fowler, John: The Co-operative Bank Presentation to CSSA European Outsourcing Conference, Oct. 1995.

complete control of direction, resource and operation.

*Supplier relationships* [129]

Three examples of the different levels of outsourcing and the supporting relationship management and their impact on the Bank's ability to respond to its competitive environment are given below.

- *Outsourcing credit card processing*:

  The Bank was faced with the challenge of a minimum three-fold increase in volume increase and expanding compliance and regulatory demands without wishing to increase its investment. They looked for a supplier that could provide pay-as-you-use costs and a reduction in the management time being committed by the Bank. The Bank needed tight service level agreements and a simple interface to the supplier. The Bank chose FDRL, a mature company that had supplied the Bank's original software and had been able to modernize their version and offer more facilities. The Bank retained complete control of the direct customer interface and was able to utilize the released support staff to work on other more priority applications so no job losses were incurred. The contract is based on unit costing. The Bank no longer has to worry when launching a new product in the credit card market as to whether it can handle the additional telephone calls or the paper work. There is simply a cost implication to be worked out in determining the price of new the service.

- *Cash dispenser management*:

  In the early days the provision of this service had a competitive element but with any sharing arrangements in force, cash dispensers were no longer a significant service in competitive terms. The Bank's high (mid 90%) availability was however not considered satisfactory to its customers. The management of the complete nationwide system went to IBM who because of their size and aspirations to expand the service instituted a 24 hour monitoring of all critical elements. The contract initially was based on a straight fee per dispenser basis with the understanding that as the business developed there would be a move towards a management fee plus a transaction costing structure. Again the Bank was able to manage growth simply by cost. The contract covers both the total availability of the machines to the Bank's customers and the levels of excess cash within the

[129] ibid.

machines which the Bank continues to fund. IBM are penalized if they fall below the agreed standards of availability or go above a certain level of excess cash in the system. On the other hand, they receive bonus payments if they exceed availability levels and if the cash usage is managed at the optimum.

- *Applications development management*:

  Over twenty years the Bank's in-house team had done a first class job in developing a complex and highly integrated platform of systems from which the Bank runs the majority of its services. The complexity became a major headache and in cost terms a milestone around the Bank's neck. The economic recession had forced the Bank to cease the expansion of its resources in the department inhibiting career progression and damaging staff morale. At the same time the various areas of the Bank's business were demanding greater speed and efficiency in the systems to remain competitive. In resolving the problem the Bank wanted to move to a situation where each area of its business was responsible for directly authorizing and providing the costs of its own developments.

The criteria was to secure mission critical systems at the same time as re-engineering them. The Bank needed to retain banking and systems expertise whilst creating a capability for the development of future systems utilizing the most modern tools. The Bank wanted to retain control of strategy and policy in this important area of the Bank and they wanted to deliver to the various business areas of the Bank, a flexible and responsive service, ready to change and employing the best practices driven by business needs. There was finally the desire to reduce fixed costs and switch more investment into new development.

The Bank was effectively searching for a company prepared to become heavily involved in their business that would recognize and adopt their own critical success factors and that could demonstrate performance levels delivering the quality and productivity that they were looking for. The Bank wanted to safeguard the future of their development staff and ensure that they continued to work in a culture that was similar to that of the Bank's.

The company agreement includes all application development and support. A total of 130 of the Bank's own staff transferred to the company handling the outsourced work but their teams and skills have been retained in the Bank as they still operate from the Bank's premises and use the Bank's computer facilities for development and testing. Working for the new organization has opened career opportunities for the transferred staff who generally welcomed the move although consultation with the trade union was a priority before progressing the proposals. The operating agreement works all the way from joint strategic and resource planning down to monthly measures of quality, productivity and costs. Through the processes and techniques introduced by the contractor there has been a significant reduction in costs of support and maintenance to the Bank.

In its first year staff numbers were reduced by 34 full-time employees, service quality has improved by 49% and productivity is up by 15.5%. The Bank offers each of its business areas a can-do approach, which involves each area more closely in the commercial justification of each application development.

The key principles in relationship management according to the Bank are:

- Understand and retain focus on the rational for outsourcing.
- Acknowledge the mutuality of interests between client and supplier, for example:

  – improved focus on respective core competencies;

  – increased market shares;

  – joint development opportunities;

  – joint leverage of industry skills and economies of scale.
- Do not outsource strategic competencies.
- Do not expect the cost case to be the sole justification.
- Have single point accountabilities for the key components of the deal.
- The management challenges in managing an outsourced supply is at least equal to that involving the in-house operation.
- Effective project management is the key to successful tracking and drawing to a conclusion the multiple elements of any outsourcing deal.
- The expectations of the parties need detailed specification in the annual operating plan reporting on the delivery should be largely automatic through the agreed management information system.
- Annual operating plans need to cover all the likely events during each operating period. The annual operating plans needs to clearly state volumes and developments etc.
- Operating procedure manuals must be in place that are jointly audited, signed off and published in a quality form. They must be maintained and staff must be trained and retrained where necessary.
- In conditions of extended (multi-party) supply relationships it is vital that the

client has a prime mover contractor to take the strain of management.

- There needs to be review structures with meetings that alternate between the clients and suppliers offices.
- Proper management information systems based on agreed sources and proper presentation of that information.
- Proper executive control. This should be managed by executive management making an occasional visit to a relationship steering group following the proper circulation of reports and minutes.
- Bench-marking. It is essential to begin and maintain bench-marking as soon as possible based on internally driven standards and tested against business plan assumptions over time.
- Transparency. The client owns the responsibility for service standards.

*Employee relationships*

The Bank's HRM programme has made major strides in a number of areas. The Bank' full time equivalent numbers of staff was brought down from 4,200 in 1989 to 3, 534 by 1995. The number of women in management has risen from 9.1% to 16.3% in the same period. The Bank has a much flatter structure with just five levels of management and much greater emphasis on team working. The Bank has moved from Monday to Friday to working seven 24-hour days. Part-time staff numbers have risen from 12.7% to 21.4% in six years. Remuneration has moved away from cost of living increases to performance-related pay with an annual group bonus and profit sharing. TQM, training and equal opportunities has been especially emphasized.[130] The Bank's pioneering values programme has made a major impact on staff perceptions. The Bank won a national training award in 1991.[131] The trade union is fully recognized. The TQM project involved three stages:

1) A quality survey;
2) a senior management workshop to develop a quality policy and,
3) an improvement programme involving education and training in quality improvement to all staff and the setting up of quality improvement groups varying in size from 8 to 15 people.

There was a strong emphasis on improving internal relationships through as system

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[130] Everest, Shelagh: "A Case Study of Integrating HR into the Business", a training presentation by S. Everest, Head of Human Resources, The Co-operative Bank, (8 Nov. 1995).

[131] Peter Davis and Steve Worthington, op. cit., p. 68.

of secondments and temporary staff swaps to improve awareness of the requirements in other departments. Service-level agreements were established between centres to agree response times and communications and the setting up of contact people at either end of the relationship.[132]

*Conclusions* [133]

The Co-operative Bank's achievement can be measured by a number of different criteria. First it has put the word "cooperative" back into the cooperative movement in the UK with both the CRS Ltd. and the CIS Ltd re-instating the word in their logos. The Bank has given the cooperative movement a brand image that is modern and socially relevant based on traditional cooperative values. It has rung a cord with the consumer as can be seen by increased numbers of customers and the positive public image it has achieved. The Bank has successfully integrated cooperative values into modern management methods and as a result has been able to withstand and prosper in a competitive environment that was as tough as can be expected to be experienced in any cooperative context. In so doing, the Bank does not just have a positive message of hope for the standards of retail banking. It is giving a concrete lead to the whole cooperative movement not to turn its back on the cooperative identity. Cooperative values when used positively as part of a management philosophy and in support of, and indeed developing, established management methodologies can gain added customer value and competitive advantage for the cooperative.

In addition, the Bank has succeeded commercially beyond anything that could have been predicted given its resources and competitive environment. Its retained profits, after plummeting between 1989 and 1990 have continued to make outstanding progress. This has led to headlines announcing record breaking profits in 1997 and 1998.[134] Pre-tax profits doubled between 1994 and 1996. By 1997 they had risen to £55 million giving a return on capital of 23% to its owner, the Co-operative Wholesale Society.[135] The mixture of customer social value plus customer care policies; astute business process re-engineering supported by careful development and

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[132] Wilkinson, A., Snape, E. and Allen, P.: "Banking on TQM", *Journal of Cooperative Studies*, Vol. 73, (Manchester, Jan. 1992), pp. 30-31.

[133] I would like to acknowledge the help of Simon Williams, David Smith and Keith Girling at the Co-operative Bank who along with John Folwer and Shelagh Everett generously gave of their time to assist my understanding of the Bank's policies. I remain solely responsible, however, for any errors, omissions or misleading presentation of data that may appear in this case study.

[134] "The £33 million goodbye present", *The Cooperative News*, Front page, (Manchester, 16 Sept. 1997).

[135] "Co-op Bank announce record results again", *The Cooperative News*, front page, (21 April 1998).

management of supplier relationships; innovative products and services supported by excellent market research, professional public relations and a coherent HRM strategy makes the Bank a case study worthy of careful attention by all those concerned to develop excellence in the practice of cooperative management.[136]

[136] For further information visit the Co-operative Bank's website: <Cooperative Bank.co.uk>, which includes a large amount of material and all press releases as well as the full Partnership Report.

## Questions

*General*

1. Looking at the case, how important do you think the Bank's cooperative background has been in determining its approach to TQM and how significant has TQM been in influencing the mission, strategy, product development and style of the Co-operative Bank's management?

2. What are the most significant themes governing the Co-operative Bank's communication to its customers?

3. What were the most important messages that came from the Bank's survey of customers?

4. What are the lessons (positive and/or negative) in the case study for the credit unions and other financial service-based cooperatives and mutuals' member relations and membership growth strategies?

5. Do you think the approach by the Bank could be adapted for other sectors of the cooperative movement? How might the policy work in respect to your own cooperative society?

*Supplier relations*

1. What were the key activities that the Co-operative Bank has outsourced? Does the Bank's justification for this strategy carry any lessons for the credit unions and other cooperatives in general?

2. What are the key areas that the Co-operative Bank focus on in the managing of its supplier partnerships and how do these relate to the Bank's TQM philosophy?

3. To what extent does the Bank's ethical stance inform the style and content of its supplier relations?

*Employee relations*

1. What have been the overall changes in the Co-operative Bank's employment profile outlined in the HRM presentation?

2. How does the Bank's HRM strategy tie into its TQM strategy?

*Media strategy*

1. What was the rationale for the Bank's target audience for the media campaign?

2. How did the Bank determine the message included in the media campaign?

3. How successful was the Bank's media campaign?

# 8 Conclusions

## The Cooperative Competitive Advantage

The cooperative movement faces serious challenges both internally and externally. The external threats are driven by the same needs that drive all business. The need to improve competitiveness by every possible means. The competition is growing fiercer and threatens to overwhelm many cooperatives in the short to medium term. By far the toughest challenges, however, are the internal ones of inappropriate management-board relationships, fragmented business organizations and cooperatives' frequent appearance in low growth, low value-added business sectors. The culture of dependence on government hangs like a millstone around the organization of cooperatives in many parts of the world and the unwillingness to develop a professional management among the smaller cooperatives together with the creeping managerialism in the larger cooperatives threatens between them the very survival of cooperative organization. The route to destruction will be different. Privatization remains a threat to the larger cooperatives whilst bankruptcy is the great danger in the case of the small micro-cooperatives.

Yet never was there a better time for a professional management committed to cooperative identity to appear. Modern management, modern markets, modern society are all looking for essentially cooperative solutions to the otherwise serious problems of injustice, poverty, destruction of environmental systems vital to the quality of life on earth and the fragmenting communities upon which the very definition of our humanity depends. If the cooperative movement fails the challenge and disappears someone will have to reinvent it. There is of course nothing inevitable about the cooperative movements successes or failures. All depends on the courage, vision, skill, knowledge and quality of leadership that cooperatives can muster. What is certain is that they certainly do have a number of in-built competitive advantages if they can only get the opportunity to apply them.

Externally, the cooperative advantage lies in the ability of the cooperative society to be perceived by the market and in the minds of the other stakeholders such as suppliers, carriers, trade unions etc. as an organization based on integrity and transparency of the motives with objectives of realizing the mutual interests of its stakeholders in so far as they are compatible with the realization of customers interests. The safeguard preventing exploitative relationships arising in the process of realizing customers' interests lies in the cooperative's social dimension that recognizes that customers are not just one dimensional beings (consumers).

Secondly, the fact that the cooperatives can be genuinely service driven without the distraction of meeting the demands of the market for shares can make a significant difference to the competitive offer mutuals can make when they are able to compete on more or less equal terms in the market.

Thirdly, Management Science itself amidst competitive conditions led by the need for partnerships in the delivery of World Class Quality has taken management culture and methodology down a value-based, relationship-oriented approach. This stake-holder based management provides an intellectual context in which the case for the validity if not superiority of the mutual business structure can be made within the mainstream management/business school.

Fourthly, the growing numbers of socially concerned consumers and managers means that there exists an educated and articulate constituency from which the cooperatives can regroup their social foundations and draw from for their professional and democratic leadership. But first they must convince this constituency of their seriousness as a viable option for the delivery of services and for leveraging social development and reform through commercial business.

Internally cooperatives have major potential advantages because the social objectives and mutual status enables cooperation within the organization to be maximized. Whether it is optimized in terms of results will depend on the quality of the management and skills of all concerned. Nevertheless, a superior potential for organizational development and genuine team-building exists in the cooperative context. Employees will identify with an organization that works for and reflects the values and interests of the community because often the employees themselves will be part of that community as well as serving it. Mutuality enables cooperatives to develop less stressful and more socially constructive working relationships with their employees and suppliers based on the perception of trust and legitimacy of cooperative management.

If the potential is to be realized there is much to be done. The priorities are:

1. Greatly expand the provision of management development to existing managers.
2. Attract new talent to recognize career opportunities in cooperative management.
3. Develop a market for cooperative management.

   Establish Cooperative Specialist Executive Recruitment Consultancies

   Encourage women and young graduates

   Establish a register of vacancies on the Internet

   Develop more management exchange programmes
4. Change the status of cooperative professional management and the

leadership role of the Chief Executive.

5. Change the management and organizational culture of cooperatives.

The significant point about all this culture change is that it is not premised upon the old nostrum of the need for cooperative business to become more commercial and reduce the social dimension. On the contrary, it is based on the absolute conviction that the cooperative purpose and identity is the differentiating factor that gives the cooperative its competitive advantage. This survey has tried to demonstrate the synergy between mainstream management theory and methodology and cooperative identity. It is not proposing an increased leadership role for professional managers in cooperatives to undermine democracy but to make it a more living and vibrant reality. A modern participatory democracy that engages the membership in terms that they will want to respond to. It is not to managerialize cooperatives but to cooperativize managers that this survey is calling for. Not to oppose the market, but to compete effectively in the market and, in so doing, enable the market itself to truly reflect the needs of the society it ultimately claims to serve. The cooperative exists to ensure the just operation of the market for all. It will not achieve this purpose without a professional management that is committed to it.

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