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Letter from the Editors

IN THIS ISSUE OF IJCAM we have an opinion piece, book review and three research papers. The first paper "Growth of Credit Unions in Costa Rica: What are the Determinants?" by Miguel Rojas and his colleagues from the Université de Moncton and the Université du Québec à Montréal, Canada explored the drivers that led credit unions to benefit from financial reforms in 1995 and grow faster than private-sector banks and State-owned commercial banks. The next paper "Adapting a Co-operative Marketing Framework as a Sustainable Development Model for Indigenous and Marginalized Communities: A Research Proposal" by Dr. Lakshmi A.J. from the University of Kerala, India, proposes new research aiming to adapt the Co-operative Marketing Framework studied in her doctoral work to improve the well-being of indigenous and other marginalized / excluded communities without harming their lifestyles and values. The third paper, by Patricia Smith (recent graduate of the Master of Management in Co-operatives and Credit Unions, Saint Mary's University), explores the use of patronage refunds in consumer-based food co-operatives in the United States. This is followed by Peter Davis' comprehensive review of a two-volume series on Co-operatives and Peace: (1) *Co-operatives and the Pursuit of Peace*; and (2) *Concern for Community: The Relevance of Co-operatives to Peace*. Finally, the issue concludes with a unique opinion piece by Peter Davis regarding "Co-operatives, Management Agency, Democracy and Failure: Why Governance Should Not Be Seen as the Issue".

Call for Papers

General Call for papers on co-operative accounting and management topics

- Submission deadline – February 28, 2023

Papers related to management topics should be submitted to Peter Davis: pd8@leicester.ac.uk and those focusing on accounting and reporting should be submitted to Daphne Rixon: daphne.rixon@smu.ca.

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Growth of Credit Unions in Costa Rica: What are the Determinants?

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Abstract: Credit unions in Costa Rica featured rates of growth exceeding those of privately and State-owned commercial banks, after the deepening of the reform of the financial sector that was completed by 1995. However, little is known about the drivers of such growth. The objective of this study is to investigate the determinants of the growth of Costa Rican credit unions after the financial reform. Using panel data regression on a sample of 27 credit unions, we found that the reform of the financial system allowed credit unions to reduce their capital to enhance their growth. Higher surpluses (the equivalent of profits in the context of credit unions) was another driver of growth. In some cases, mergers also, appear to have enhanced growth. The size of the credit union in the previous year was positively related to its growth. Our results show no evidence of association between the age of the credit unions and their growth. Debt in arrears does not appear to influence or limit growth. Our study provides explanations for the important growth exhibited by credit unions in Costa Rica. It also offers guidance to regulators and managers of credit unions on what can be done to promote the growth of credit unions.

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Keywords: credit unions, credit unions' growth, Costa Rica

Introduction

By the mid-1980s, the Costa Rican government began the implementation of major reforms in the regulation of the financial industry (González-Vega, 1990; Lizano, 2004). These changes in the regulatory environment led to the removal of several controls over portfolios and interest rates, which had previously been set on a yearly basis by the Central Bank of Costa Rica and imposed upon the State-owned commercial banks. The latter had dominated the banking industry since 1948, when the junta that took power after a civil war nationalized three banks, namely, Banco de Costa Rica, Banco Anglo Costarricense and Banco Crédito Agrícola de Cartago. The decree of the government had also established that the newly nationalized banks, together with the Banco Nacional de Costa Rica, which had been wholly owned by the State since its establishment in 1914, were the sole institutions able to issue chequing and savings accounts to the public (González-Vega & Messalles, 1988; González-Vega, 1990). With the enactment of Law No. 7558 in 1995, the State-owned commercial banks lost all their exclusive privileges over the issuing of chequing and savings accounts. A new regulator, the Superintendencia General de Entidades Financieras (SUGEF, by its Spanish acronym) was created, with greater autonomy and wider powers than its predecessors (Cerdas & Melegatti, 2014; García, 2004; Goldstein, 2001).

During the period covered in our study (1996-2017), Costa Rican credit unions experienced strong growth in this new regulatory environment. Data from the website of SUGEF show that by 1996 the credit unions it regulated owned assets valued at 42.18 billion Costa Rican colones (approximately 192.3 million US dollars). By the end of 2017, the value of their assets had jumped, in nominal terms, to 3.19 trillion Costa Rican colones (roughly 5.63 billion

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US dollars), thus growing at a compound rate of 22.87% per year. The growth of credit unions outpaced other major players in the financial market, such as State-owned and private-sector banks, which exhibited compounded annual rates of growth of 14.42% and 20.34%, respectively, between 1996 and 2017. Profits also grew considerably during the period under study. They were approximately 5.7 billion Costa Rican colones in 1996, jumping to 38.8 billion Costa Rican colones in 2017, almost a seven-fold increase. More recent data, also from SUGEF, reveal that the growth of credit unions is not a passing trend. In fact, by the end of 2018, the ensemble of credit unions possessed assets valued at 3.43 trillion colones (about 5.68 billion US dollars). The latter figure grew to 4.21 trillion Costa Rican colones at the end of 2022 (roughly 7.09 billion US dollars). Thus, the nominal value of the assets held by credit unions grew at an annual compound rate of 5.27%, higher than the rate exhibited by State-owned commercial banks (4.34%), and second only to private sector-owned banks, which exhibited a 5.42% annual compound rate during the years 2018-2022.

González-Vega (1990) asserted that the control of chequing accounts by State-owned commercial banks was the most important distortion in the Costa Rican financial system at the dawn of the 1990s. Moreover, in 1995 SUGEF adopted an *ex ante* prudential regulatory approach that replaced the *ex post*, repressive scheme applied beforehand (SUGEF, no date). Little is known about the determinants of the growth of credit unions after the important changes that took place in 1995.

Given the increasing importance of credit unions,in this article we investigate the determinants of their growth after the abolition of the monopoly of State-owned banks over the issuing of chequing and savings accounts and the establishment of SUGEF, two measures that constitute a major landmark in the evolution of the financial industry in Costa Rica (Cerdas & Melegatti, 2014; García, 2004). Although credit unions did not receive the power to issue chequing accounts, as we discuss further, they were able to take advantage of the new financial environment.

To the best of our knowledge, the determinants of the growth of Costa Rican credit unions has not received scholarly attention before. It is, nonetheless, a subject of great academic and social importance. Credit unions have become major players in the Costa Rican financial market. In 1996, at the outset of the new regulatory environment, the credit unions supervised by SUGEF held about 3.7% of all assets owned by financial institutions in Costa Rica. By 2017, that indicator had almost tripled, to 9.9% (Rojas et al., 2018). Moreover, the World Council of Credit Unions reported that 628,914 individuals had been served by 66 credit unions in Costa Rica during the year 2021. Thus, members of credit unions in the country represented nearly 18% of the economically active population with an age range from 15 to 64 years old, slightly higher than the corresponding figure for Latin America, which was 16.50% (World Council of Credit Unions, 2021). Credit unions are not-for-profit organizations and, as such, they are not required to satisfy simultaneously both the maximization of shareholder profits and disparate consumer needs (McKillop & Wilson, 2015). Their management can instead strive for other goals, such as bringing financial services to a wider segment of the population, particularly to people excluded by traditional banking institutions. The attainment of such goals would imply, in the case of credit unions, a greater emphasis on growth, rather than on profitability. Knowledge of the determinants of the substantial growth exhibited by Costa Rican credit unions could help the global credit union movement to build new development strategies based on the Costa Rican experience. Cooperatives are recognized as an important third sector that can fill the gaps that arise between the public and private sectors (Ishak et al., 2020). Their growth (or that of a specific group of them, such as credit unions) could be of interest for policymakers in many countries.

Our article aims to shed light on the determinants of the observed growth of Costa Rican credit unions. The literature on the determinants of growth in other settings is rather sparse. Mamun (2023) studied the growth of the largest 100 credit unions in Canada. The author found evidence of a positive relationship between size and growth. However, the research pointed to diseconomies of scale, i.e., larger credit unions exhibited slower growth than their smaller counterparts. Mergers did not seem to affect growth in the Canadian context. Growth also appeared to be positively related to the cost-to-income ratio and negatively to a higher capital-to-asset ratio. Goddard et al. (2002) examined the growth of credit unions in the United States during the 1990s. They found that that there was a positive and significant relationship between size and growth, although this result mostly applied to the state-chartered credit unions and not to the federally-chartered ones. The authors also pointed out that large credit unions tended to grow faster than their smaller counterparts because they were more efficient or exhibited lower levels of capital or bad-debt ratios. The results also suggest that the age of the credit unions hinders their growth. Goddard & Wilson (2005) analyzed the growth of US credit unions for the period 1992–2001 and the relationships between size, age, and growth. They found that larger credit unions grew faster than smaller credit unions. State-chartered credit unions grew faster than federally-chartered credit unions, and single-bond credit unions grew faster than multiple-bond credit unions. The younger credit unions tended to outgrow the older ones. Barron et al. (1994) analysed the evolution of state-chartered credit unions in New York City from 1914 through 1990, focusing on the effects of organizational age, size, and population density on rates of organizational failure and growth. Their results showed that small, older institutions are more likely to fail, while small, younger organizations exhibited the highest growth rates. Moore (2005) studied the determinants of the growth of 44 credit unions in Barbados during the years 1975 to 2001. The author found that size is an insignificant factor in the growth of credit unions. Age, as in the case of the study by Barron, was inversely related to growth. Efficiency appeared positively connected to growth.

Drawing on the extant literature on the growth of credit unions, we examine in our study the role of several potential drivers of growth for Costa Rican credit unions during the chosen period. Those indicators include the size of the credit union, their organizational age, the value of capital as well as the value of surpluses, mergers, and debt in arrears. Our findings could help governmental agencies and credit unions to promote the growth of the latter. Credit union managers could revise their strategies based on our findings. Regulators could also benefit from our insights, because they can help them to assess whether credit unions that emphasize the factors identified in this paper would thereby increase the risks that they assume, with eventual impacts on the level of systemic risks confronted by the Costa Rican financial system.

The remainder of the article goes as follows. The next section presents a review of the literature and the formulation of the hypotheses, followed by a section explaining the methodology. A fourth section presents the results, followed by a section in which these are examined. A concluding section summarizes the paper. The last section suggests avenues for future research.

Related Literature on the Determinants of the Growth of Credit Unions and the Development of the Hypotheses

This section reviews the findings in previous literature on the determinants of growth, mostly in the realm of credit unions, and develops several hypotheses concerning the factors that appeared to affect the growth of the latter in Costa Rica during the period under scrutiny. Those hypotheses involve the following indicators: the size of the credit union, its organizational age, and the value of capital, surpluses, and debt in arrears, as well as the frequency of mergers.

The discussion on the impact of size on growth, for all kinds of organizational forms, goes back to Gibrat (1931), who asserted that the size of the firms is unrelated to their growth. The analysis of the extant literature on the growth of credit unions points to contradictory conclusions concerning the impact of size and organizational age on growth. Mamun (2023) studied the growth of the largest 100 credit unions in Canada. The author found evidence of a positive relationship between size and growth. However, the research also pointed to diseconomies of scale, i.e., larger credit unions exhibited slower growth than their smaller counterparts.

Goddard et al. (2002) analyzed the determinants of the growth of credit unions in the context of the United States. Their analysis of a sample of 7,603 credit unions in the United States during the period from 1990 to 1999 showed that there was a positive and significant relationship between size and growth. This positive association concerned single common-bond credit unions (i.e., credit unions whose members had to comply with a certain single prerequisite, such as employment in a certain organization or residence in a specific geographic area) and state-chartered credit unions. The relationship between size and growth was negative in the case of federally-chartered credit unions. Goddard et al. determined that this result could reflect the fact that larger credit unions benefited most from the more liberal regulatory schemes prevailing at the state level.

Goddard & Wilson (2005) analyzed the growth of US credit unions for the period 1992–2001 and the relationships between size, age, and growth. They found that larger credit unions grew faster than smaller credit unions. State credit unions grew faster than federal credit unions, and single-bond credit unions grew faster than multiple-bond credit unions. The younger credit unions tended to outgrow the older ones. This seems consistent with a life-cycle typology of credit union growth and development. There is also evidence of a positive persistence of growth effect. They also found that the cross-sectional variance of growth is inversely related to size. Barron et al. (1994) investigated the evolution of state-chartered credit unions in New York City from 1914 through 1990 by analyzing the effects of organizational age, size, and population density on rates of organizational failure and growth. Their results showed that small, older, institutions are more likely to fail, while small, younger organizations exhibited the highest growth rates. Moore (2005) did not find a connection between growth and size of the credit unions in the Barbadian context.

The literature that focusses on the growth of organizations outside the realm of credit unions supports the view that size could have a positive effect on the prospects of growth of organizations, thus invalidating the proposition of Gibrat. For instance, Van Biesebroek (2005) provided evidence that size matters for growth in the context of manufacturing firms in nine sub-Saharan countries. According to the author's analysis, firms with 100 or more workers exhibited a greater ability to survive, grew more rapidly and improved productivity faster than smaller firms. Moreover, over time, large firms appeared to remain large and at the top of the size distribution of firms, while their smaller counterparts exhibited difficulty in advancing to the top of the size distribution of firms. Stam (2010) also reported several studies that contradicted the proposition of Gibrat on the independence of a firm's size and its growth.

In the Costa Rican context, we contend that there are additional elements which increase the likelihood that large credit unions could enjoy a higher rate of growth. Our explanation is two-pronged. First, smaller Costa Rican credit unions could experience difficulties in adopting new information technologies. Dow (2007) has shown that the larger credit unions in the United States adopted new information technologies faster than smaller ones. Secondly, the cost of complying with the new regulatory burdens brought about by the financial reform of 1995 reduced the competitive position of the smaller credit unions in Costa Rica, because it is possible to suspect that at least some of the costs of compliance, such as appointing officials to manage regulatory issues in the credit unions, could be similar for every organization, no matter its size.

Variables other than size could also have affected the growth of credit unions in Costa Rica during the period under scrutiny. Goddard et al. (2002) observed that older credit unions grew more slowly than their newer counterparts. Previous literature has suggested that the age of the credit unions could play a role in their growth, although the sign of this variable is still open to discussion. Older credit unions could benefit from barriers to entry of any sort that could disadvantage their younger counterparts. However, it is also possible that older credit unions may become "ossified," to employ the term from Goddard et al., limiting their growth. Goddard & Wilson (2005) provided evidence that the cross-sectional variance of growth is largely independent of age. However, other research in a non-credit union setting supports the view that the age of organizations could play a role in their growth. Anyadike-Danes & Hart (2018) examined the trajectories over a period of 15 years of the 239 thousand firms established in the United Kingdom in 1998. Although the mortality rate of young firms was quite high, they concluded that younger firms were more likely to grow than older firms, and that smaller firms that grew did so at a faster rate than older firms that were also able to grow.

Previous research supports the view that higher ratios of capital to assets hinder the growth of credit unions. Mamun (2023) found a significant and negative relationship between the ratio of total capital to total assets. This author contends that such a result suggests that credit unions with less opportunities to expand have larger capital-to-asset ratios. Goddard et al. (2002) also found a negative relationship between a higher capital-to-asset ratio and growth. They suggested that credit unions exhibiting high capital-to-asset ratios may be over-cautious, hampering their growth.

Credit unions are not-for-profit organizations. Their bottom line is usually called "surpluses." We hypothesized that in Costa Rica, as in the United States, the ability of credit unions to grow must be positively linked to their ability to generate surpluses that can be reinvested to provide loans to members. Unlike conventional banks, credit unions cannot raise funds in the capital markets (Ory et al., 2006). In order to grow, credit unions must rely either on capital provided by new and present members or generate more surpluses that can be reinvested. Because the contributions of members to the capital of credit unions are normally set at a very low level (Rojas et al., 2018), this source of capital is unlikely to fuel growth. Therefore, we hypothesized that credit unions exhibiting high levels of surpluses grew faster than their less profitable counterparts. Goddard et al. (2002) supports the view that the ability of credit unions to generate surpluses enhances their prospects of growth. Their article shows that return on assets is positively connected with growth. Goddard et al. (2002) reasoned that higher levels of bad debts could signal inefficient management, affecting the growth of credit unions negatively. They found empirical support for their insight.

Mergers could have the potential to enhance the growth of credit unions in Costa Rica. Larger credit unions, in the hope of benefiting from economies of scale or scope, could be tempted to merge with their smaller counterparts to fuel their own growth. Smaller credit unions, for their part, could have encountered problems in implementing new information technologies, or in complying with the more astringent regulations brought about by SUGEF, or could face lower prospects of growth. Merging with larger credit unions could have been a way for them even to survive. Nevertheless, mergers might fail to support subsequent growth. Mamun (2023) reports that mergers were frequent in the Canadian context during the scrutinised period, although they did not foster growth. Goddard et al. (2014) reported an important consolidation process in the credit union movement in the United States, either because of failure or merger. According to their study, smaller credit unions were at a higher risk of being acquired during the period under scrutiny (1994-2010). After controlling for size, older credit unions exhibited an increased likelihood of being acquired. They also reported that credit unions holding a high proportion of their assets in liquid form, and credit unions with low loan-to-asset ratios were at higher risk of being acquired or of failing. Although the authors did not study the impact of mergers on subsequent growth, they concluded that the merger activity had a modest impact on concentration of the industry, which is in our view consistent with a low impact on growth. In the end, the impact of mergers on the growth of Costa Rican credit unions is an empirical question and, consequently, a variable that proxies them should be introduced into our study.

Drawing on the previous literature, we present the following hypotheses guiding the rest of our investigation.

> H1. The size of a credit union in a given year is positively related to the credit union's growth in the subsequent year.
> H2. Higher levels of capital are negatively related to the growth of credit unions.
> H3. Higher surpluses are positively related to the subsequent growth of credit unions.
> H4. Mergers are related to the growth of credit unions.
> H5. Bad debt in one given year is negatively related to credit unions' growth in the subsequent year.
> H6. The age of credit unions is negatively related to their growth.

Methodology and Data

To inquire into the variables that could have had an impact on the growth of credit unions in Costa Rica during the years 1996-2017, we ran a panel regression. Our sample covers the entire population of the Costa Rican credit unions regulated by SUGEF as of December 2017, a total of 27 credit unions. Costa Rica has a single level of government (Lehoucq, 2000; Walker & Waterman, 2008). Therefore, credit unions are only chartered by the national government, and never by a state or a province, as is the case of the United States and Canada. Credit unions in the United States can be chartered at the federal or the state level, with different impacts in terms of the regulatory environment. In Costa Rica, "open-bond" credit unions, i.e., those without a restrictive membership requirement, are regulated by SUGEF if they possessed assets of 1,266 million Costa Rican colones as of December, 2017. SUGEF has been compiling information about the credit unions falling under its watch since its inception in 1995. That database is available to the public in Spanish on the website of SUGEF (www.sugef.fi.cr), and data on credit unions are available from 1996 onwards. We drew on SUGEF's database to obtain data concerning size and other accounting variables also employed in our study, such as values of capital, net surplus, and debt in arrears for 90 days or more (bad debt). In a few cases, the information we required was missing from the database, and we complemented it with information provided by the Instituto Nacional de Fomento Cooperativo (Infocoop). It is important to highlight that SUGEF deletes data on credit unions that are no longer independent entities, because of a merger or bankruptcy. In the annex, we present the name of the credit unions, their year of inception as well as the number of times that they merged during the period 1996-2017.

Credit unions exhibited a great deal of variation in the variables under study. Observations for size, for instance, varied from 29.24 million Costa Rican colones to 725.1 billion Costa Rican colones. Debt that had been in arrears for 90 days or more or that is under judicial collection procedures also showed a great deal of variation. Its average value was 347.8 million Costa Rican colones, with a minimum of zero and a maximum of 7.01 billion Costa Rican colones. Strong variations between observations could also be found for the variables capital and surplus (the equivalent of after-tax net income in the case of for-profit organizations). Values for capital ranged from minus 629. 6 million Costa Rican colones to a maximum of roughly 118 billion, while the surplus minimum was minus 1.3 billion Costa Rican colones and its maximum was 23.5 billion. In all cases, we present data which has not been adjusted for inflation. Credit unions exhibited a great variation in terms of their age. The oldest credit union had been active for 62 years. The youngest had existed for just two years, and the average was roughly 38 years. Table 1 presents descriptive statistics for the data included in our study. Following Goddard et al. (2002) and Mamun (2023), we measured size in terms of the nominal accounting value of total assets. Goddard et al. (2002) used this metric to measure the size of the credit unions in their sample as well, but they also relied on membership as an alternative measure. We did not have access to information on membership, which prevented us from using this metric as a proxy for the size of the credit unions included in our sample.

Table 1: Descriptive Statistics (Accounting Values in Thousands of Costa Rican Colones)

Variable	No. observations	Mean	Std. deviation	Min.	Max.
Size	548	38,086,937	102,383,570	29,239	725,058,070
Bad debt	453	347,823	892,994	0	7,066,697
Capital	548	7,433,352	17,757,745	-629,573	118,040,650
Age (years)	584	37.7	11.7	2	62
Surplus	544	823,693	2,116,466	-1,300,619	23,493,349

Data on mergers between credit unions that took place during the period under scrutiny were provided by the staff of SUGEF. To obtain the age of organizations in any year of the study, we drew on the website of each credit union in our sample, to identify their year of inception. If the information was absent on their site, we obtained the information by means of phone calls. Eight mergers took place during the period 1996-2017. As was previously stated, SUGEF deletes data concerning credit unions which have disappeared after a merger, reporting only data for the surviving entity. One of the credit unions in the sample merged with other credit unions five times; three other credit unions merged once. We created four dummy variables to deal with mergers. A dummy variable took a value of zero the year that the merger took place and all years before. It took a value of one the year after the merger happened and all subsequent years. It is important to highlight that only one credit union, Coopealianza, merged more than once. Its fifth merger was at the end of the period covered by the study, leaving extremely few observations different from zero and so we dropped it from the analysis.

Results

In order to test the hypotheses of our study, we ran an equation, using panel regression. The equation comprised all the variables presented in the hypotheses, namely size, capital, surplus, bad debt, mergers and age of the credit union. We also included in this equation a dummy variable for each of the years covered in the sample, in order to capture the influence that the economic environment may have had on the growth of Costa Rican credit unions during the years under scrutiny. The model to estimate is described in Equation 1.

Equation 1

$$ln\,S_{it} - ln\,S_{it-1} = B_0 + B_1 lnS_{it-1} + B_2(lnC_{it} - lnC_{it-1}) + B_3\,(lnSurplus_{it} - lnSurplus_{it-1}) + B_4(lnB\_db_{it} - lnB\_db_{it-1}) + B_j Merger_j + B_6 Age_{it-1} + B_j Year_j + u_t \quad (1)$$

Where:

$ln\,S_{it} - ln\,S_{it-1}$= growth of CU *i* from *t-1* to *t*;

lnS_t= natural logarithm of the size of the CU *i* at the time *t,* measured by the nominal value of total assets;

lnC_t = natural logarithm of the nominal value of capital of the CU *i* at the time *t*;

$lnSurplus_t$= natural logarithm of the surplus of the CU *i* at the time *t*;

$ln\,B\_dt_t$= natural logarithm of the value of debt in arrears for 90 days or more of CU *i* at time *t*;

$Merger$= a dummy variable assuming a value of one after the years following the merger *j* = 1, 2, 3,4 for the prevailing CU and zero otherwise;

Age_t= number of years passed since inception of CU *i* at time *t*;

Year = dummy variable for each of the years j=1997 ..., 2017, and;

u_t = a stochastic term.

Panel-regression estimates of the equation support the view that size is positively connected to growth. The coefficient for size, measured by the natural logarithm of the value of total assets, lagged one period, appears positive and statistically significant. The result is consistent with our hypothesis 1, that larger credit unions outpace their smaller counterparts in terms of growth. We have speculated that there could be potential economies of scale in terms of investments needed to cope with regulatory issues, or in the provision of online services to members as potential explanations. Our empirical findings uphold this view.

Another potential driver of growth is connected with the hypothesised impact of reductions in the value of capital. The coefficient for the latter variable is negative and statistically significant. Moreover, the coefficient shows that the impact of the changes in this variable is economically significant. A reduction of one percent in the value of capital would lead to an increase of approximately 0.79 percent in asset growth. Our estimates also give credence to the proposition that the ability to generate surpluses helped to sustain the growth of credit unions during the period under scrutiny. Our estimate of the coefficient for this variable was positive and significant at a 90 percent level of confidence. The estimated coefficient for the variable bad debt is not statistically significant. We speculate that the regulator was able during the period to assure levels of bad debt that did not compromise the capacity of the credit unions to grow. Our results are consistent with the findings reported by Goddard et al. (2002).

Mergers exhibit a rather fragmented picture. The dummy for the first and the second mergers shows no significant impact on the ability of credit unions to grow. This contrasts with the coefficients for the dummy variables associated with subsequent numbers of mergers, which were positive and show a high level of confidence. It is important to recall at this point that only one of the credit unions (Coopealianza) in our sample merged more than once, and thus, dummy variables two to four refer to it. For this credit union, the mergers thus helped in most cases to foster its growth.

The dummy variable that proxies for the economic environment shows that, in many cases, the year had an impact on the ability of credit unions to grow. It is worth mentioning that the coefficient for the dummies of each of the years from 2010 to 2017 is negative and statistically significant, suggesting that the economic conditions of the country or the operation of the financial system during those years negatively affected the ability of credit unions to grow. This period coincided with the aftermath of the financial crisis of 2007-2008, which started in the United States but spread to other countries through financial and trade linkages (Alvi, 2017). Naturally, other factors connected with the Costa Rican economy could also have played a role in reducing the credit unions' ability to grow after 2010. The coefficient for age is not significant, suggesting that older credit unions do not enjoy an advantage over their younger counterparts in terms of growth.

Table 2: Estimation of Panel Regression Models, First Differences, Dependent Variable: $\boldsymbol{ln\, S_{it} - ln\, S_{it-1}}$

	Estimated parameters
lnS_{it-1}	.0184872*** 4.70
$lnC_{it} - lnC_{it-1}$	-.7956253*** -15.21
$lnSurplus_{it} - lnSurplus_{it-1}$	.0261388* 1.73
$lnB\_db_{it} - lnB\_db_{it-1}$	.0021111 0.68
$Merger\ 1$	.0027627 0.16
$Merger\ 2$	.007872 0.48
$Merger\ 3$	.0941298*** 8.57
$Merger\ 4$	.1189494*** 8.25
Year 1998	-.0784129*** -2.98
Year 1999	-.1365761** -2.51
Year 2000	-.0048975 -0.18
Year 2001	-.0160105 -0.37
Year 2002	-.0279441 -0.61
Year 2003	-.0086441 -0.20
Year 2004	-.0125348 -0.32
Year 2005	-.000202 -0.01

	Estimated parameters
Year 2006	-.0131437 -0.29
Year 2007	.0023182 0.04
Year 2008	-.0451717 -0.96
Year 2009	-.086969** -2.04
Year 2010	-.1237967*** -2.68
Year 2011	-.1297187*** -2.89
Year 2012	-.1355754*** -2.82
Year 2013	-.143796*** -3.11
Year 2014	-.1575368*** -3.72
Year 2015	-.1593613*** -3.64
Year 2016	-.1863784*** -4.22
Year 2017	-.2002235*** -4.28
Age_{t-1}	-.0006143 -0.85

Coefficients are presented first, followed by *t* statistics beneath.

*, **, and *** denote significance at the 10, 5, and 1% levels, respectively.

Discussion

Costa Rican credit unions have experienced important growth since the implementation of changes in the regulatory system of the financial system that took place in 1995. In this study, we inquired into the determinants of such growth. The information provided in this article could be very valuable for managers and leaders of credit unions, since the latter, being not-for-profit organizations, might seek to improve their rate of growth.

Managers and leaders of credit unions could revise their strategic planning based on our conclusions. Credit unions in Costa Rica that intend to grow must decrease the reliance on capital to finance their assets; in other words, they must increase their leverage. Moreover, if managers and leaders of credit unions decide to rely on this driver of growth, they have plenty of room to manoeuvre, because the ratio of capital to assets exhibited by credit unions is much higher than the corresponding metric in the case of the two main players in the Costa Rican financial system, namely State-owned and private-sector banks (Rojas et al., 2018). Our findings are consistent with those of Mamun (2023) and Goddard et al., (2002). The former suggested that the negative relationship between the ratio of capital to assets and growth shows that credit unions with higher ratios of capital to assets lack opportunities to expand lending. Goddard et al. points to what they call “over-cautious” management.

The latter result warrants closer examination of the underlying mechanisms that may induce growth because of a decrease in capital. Although a sound conclusion demands more research, we propose an alternative view of the Costa Rican case, which is based on the signalling theory. The signalling theory supports a complementary explanation for credit unions choosing to exhibit higher capital-to-asset ratios. In the context of that theory, when there is informational asymmetry between the vendors and buyers of a product and the latter look for an unobservable condition (quality, for instance), the vendors could send a signal to the buyers to clearly convey the message that the products do indeed have the desirable characteristic. To succeed, however, the signal itself should have certain traits, the most notable of them being that it should be costly (Spence, 2002). In order to attract deposits from their existing and potential members, managers of credit unions may want to signal to them that the credit unions they run are financially sound and able to resist possible bank runs. Higher capital-to-asset ratios (or higher levels of capital) are thus a signal to the public that managers of credit unions could successfully face economic downturns or declines in the confidence of the public. These higher levels of capital could be costly, though, in terms of growth. For instance, in many cases, members of credit unions are obliged to earmark a certain percentage of the loans as a contribution to the capital of the credit union. Although members can normally obtain a return on the capital invested in their credit union via distribution of surpluses, forcing them to increase their supply of capital when they obtain a loan clearly increases the cost of the latter, impairing the competitiveness of credit unions and, consequently, their ability to grow.

Rojas et al. (2018) reported that the credit unions included in their sample exhibited a non-weighted average of capital to assets of 24.2% during the years 1996-2016, much higher than the corresponding metric exhibited by State-owned banks (8.8%). They also reported a substantial decline in the ratio of capital to assets exhibited by credit unions, a trend that, in our view, contributes to explaining the high growth experienced by credit unions in Costa Rica after the reform of 1995. We reason that if the need for a signal arises from an asymmetry of information among the parties involved in transactions (management of credit unions and potential and extant members), better regulation could have reduced information asymmetry and thus, the need for high reserves of capital. Our explanation is very likely incomplete, and more research should be done to better understand the mechanisms of the connection between increased growth and less reliance on capital.

If our reasoning is correct, though, managers could also draw on devices to signal the good economic prospects of their credit unions other than higher levels of capitalisation. For instance, in 2020, credit unions in Costa Rica created a system of deposit insurance. Credit unions are not obliged to join the scheme, but it has been reported that 12 credit unions, which held more than 90 percent of the assets managed by all credit unions, have adopted the deposit-insurance called Fondo FGA Confía (Arzbach et al., 2020).

Our conclusions concerning capitalisation could also help regulators to revise their work. If reductions in the value of capital may serve to fuel growth of credit unions, it can certainly increase their risk as well. Our research is not able to say if there is a minimum level that they should attain. Regulators could come up with a response.

We conclude that the growth of credit unions in any given year is positively related to their size in the previous year. However, getting bigger by means of mergers is not always connected to faster growth. It was the case for the sole credit union that went through multiple mergers, but not for the others. This finding leads us to speculate that some the mergers have been driven by non-financial motives.

Managers and leaders of older credit unions should also take note that competitive advantages built over time cannot be easily sustained in the Costa Rican sector, as age does not appear to be linked to subsequent growth.

Conclusion

From the mid-1980s to the mid-1990s, Costa Rica advanced important reforms of its financial sector. The non-market setting of interest rates and governmental allocation of credit by State-owned banks were abolished. Later, the privilege of State-owned banks to be the sole issuers of chequing and savings accounts was also terminated. A new and autonomous regulatory agency was created, and it implemented an *ex ante* prudential regulatory approach. Credit unions were able to benefit from these reforms. They grew faster than private-sector banks and State-owned commercial banks after the reforms that took place in 1995. We inquired into the variables that have had an impact on the growth of credit unions. Based on previous literature, we studied the impact of several variables on the growth of Costa Rican credit unions, during the period 1996-2017.

Our results confirm the hypothesis that larger credit unions grow faster than their smaller counterparts. The reforms allowed credit unions to reduce their levels of capital. High ratios of capital to assets point to an overcautious (or inefficient) operation of the credit unions, or a need to signal good economic prospects to wary existing or potential members. A reduction of capital enhanced the growth of credit unions during the period under study.

Credit unions cannot raise funds in the capital markets, making the generation of surpluses very important for their growth. Our data upheld the view that increments of surpluses enhanced the ability of credit unions to grow during the period under scrutiny. On the other hand, bad debt seemed not related with the capacity of credit unions to grow.

Our evidence gives a rather fragmented picture with regard to mergers. This is consistent with the findings of Mamun (2023) in the Canadian context. Mergers could be proposed in order to capture economies of scale and synergies, but also for other reasons connected with the particular interests of the managers and the leadership of credit unions involved in the decision. In one case, the only credit union that participated in a merger more than once, we found that the first and second mergers were not connected with future growth, while subsequent mergers had a positive impact on growth. It is possible that this particular credit union learned from previous experience how to target partners that were suitable for fostering growth for the combined entity. Another explanation may come from the fact that those credit unions that merged only once did so for the wrong reasons, in terms of achieving growth.

It is important to highlight a limitation of our study. As indicated above, we collected our information from the database of the regulator of financial institutions, the SUGEF. The latter deletes from its database all information about entities that are no longer in operation, because of bankruptcy or merger. We were not able to find an alternative source for the information on credit unions that had ceased their operations. This exposes our analysis to survivor bias. Future researchers on our topic could identify other sources of data, including information about credit unions that are no longer independent entities, to compensate for this limitation of our study.

Future Research

Costa Rican credit unions experienced rapid growth after the financial reform of 1995. Our study is, to the best of our knowledge, the first effort to examine what the drivers of such growth are. Other researchers could benefit from our research and expand knowledge of the topic under discussion. We relied on a quantitative approach to study the growth of credit unions in Costa Rica. However, a qualitative approach could also shed light on the topic. Future researchers could pursue this avenue of research. Secondly, we found that one of the most potent drivers of growth is the reduction in the levels of capitalisation, a finding consistent with previous literature. However, we believe that the mechanisms underlying the result should be examined in depth, to provide better guidance to managers. Mergers of credit unions also deserve additional research. So far, only one credit union has exhibited the capacity to increase growth by means of mergers, and only after two previous mergers took place. It is possible that its managers and leaders had learned how to exploit mergers to grow, or that in other cases, mergers were not motivated by the desire to enhance growth. The nature of mergers needs to be better understood, because size appears connected to subsequent growth. Qualitative research may be particularly useful in shedding light on this topic.

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Annex: List of credit unions included in the study, and number of mergers

Name	**Year of inception**	**No. of mergers (1996-2017) and notes**
Coocique (Cooperativa de Ahorro y Crédito de la Comunidad de Ciudad Quesada R.L.)	1965	1
Coopavegra (Cooperativa de Ahorro y Crédito Antonio Vega Granados R.L.)	1957	0
Coopealianza (Cooperativa de Ahorro y Crédito Alianza de Pérez Zeledón R.L.)	1971 (Merger of two credit unions)	5
Coopeamistad R. L. (Cooperativa de Ahorro y Crédito La Amistad, R.L.)	1955	0
Coopeande No. 1 (Cooperativa de Ahorro y Crédito ANDE No. 1 R.L.)	1965	1
Coopeaserrí (Cooperativa Aserriceña de Ahorro y Crédito R. L.)	1966	0 (Ceased operations in 2015)
CoopeAyA (Cooperativa de Ahorro y Crédito de los Empleados del Instituto Costarricense de Acueductos y Alcantarillados R.L.)	1964	0
Coopebanpo (Cooperativa de Ahorro y Crédito de los Empleados del Banco Popular y de Desarrollo Comunal R.L.)	1972	0
Coopecaja (Cooperativa de Ahorro y Crédito de los Trabajadores del Sector Público Costarricense y las Empresas del Sector Salud R.L.)	1971	1
Coopecar (Cooperativa de Ahorro y Crédito Refaccionario de Alfaro Ruiz R.L.)	1968	0
Coopeco (Cooperativa de Ahorro y Crédito de los Empleados de la Contraloría General de la República R. L.)	1962	0

Name	Year of inception	No. of mergers (1996-2017) and notes
Coopefyl (Cooperativa de Ahorro y Crédito de los Empleados del Sector Público Privado e Independiente R.L.)	1958	0
Coopegrecia (Cooperativa de Ahorro y Crédito de la Comunidad de Grecia R.L.)	1965	0
Copejudicial (Cooperativa de Ahorro y Crédito de los Servidores Judiciales R.L.)	1981	0
Coopelecheros (Cooperativa de Ahorro y Crédito de los Productores de Leche R. L.)	1994	0
Coopemapro (Cooperativa de Ahorro y Crédito y Servicios Múltiples de Maestros Pensionados y en Servicio Abierto a la Comunidad R.L.)	1964	0 (No longer active in the financial sector)
Coopemédicos (Cooperativa de Ahorro y Crédito y Servicios Múltiples de los Médicos R.L.)	1984	0
Coopemep (Cooperativa de Ahorro y Crédito de los Empleados del Ministerio de Educación Pública R.L.)	1970	0
Coopenae (Cooperativa Nacional de Educadores R.L.)	1966	0
Coopeorotina (Cooperativa de Ahorro y Crédito de Orotina R.L.)	1965	0 (Merged with Coocique in 2013). No longer active)
Coopesanmarcos (Cooperativa de Ahorro y Crédito de San Marcos de Tarrazú R.L.)	1973	0
Coopesanramón (Cooperativa de Ahorro y Crédito Refaccionario de la Comunidad de San Ramón R.L.)	1966	0
Coopeservidores (Cooperativa de Ahorro y Crédito de los Servidores Públicos R.L.)	1957	0
Coopesparta (Cooperativa de Ahorro y Crédito de la Comunidad de Esparza R.L.)	1964	0
Credecoop (Cooperativa de Ahorro y Crédito para el Desarrollo R.L.)	1994	0
Servicoop (Servicios Cooperativos R.L.)	1959	0

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Adapting a Co-operative Marketing Framework as a Sustainable Development Model for Indigenous and Marginalized Communities: A Research Proposal

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Abstract: The researcher's doctoral work aimed to understand how the Co-operative Marketing Framework developed from existing agricultural credit co-operative models established elsewhere was being replicated among indigenous co-operatives in the State of Kerala, India. It explored Government policies for implementing the concept of linking credit with marketing and developing a Co-operative Marketing Framework to resolve the disadvantaged circumstances faced by Indigenous communities. The community-based research proposed in this paper will draw on the lessons of the doctoral research and other literature to develop an adapted new marketing framework to improve the well-being of indigenous and other marginalized / excluded communities without harming their lifestyles and values. The research will be informed by an ethnographic grounding to establish indigenous community needs as defined by the indigenous community itself. Further objectives will be to: support the protection of habitat, species, and alternative lifestyles in the face of a homogenization of culture, the destruction of the natural world and the increasing centralization and polarization of power; and, find a co-operative strategy which not only preserves existing alternative communities but explores the possibility for those seeking an alternative to the current consumer society and wage-based economy to find a way out. The paper is not just a proposal for the project the researcher wants to undertake but a proposal for a thousand community-based research projects supporting indigenous and marginalised / excluded communities and others who, faced with the existential threats of just carrying on, would like to exclude themselves from the growth led consumer economy.

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Keywords: co-operative marketing framework, sustainable development, indigenous and marginalized communities

1. Introduction

This research proposal seeks to build on the historical and contemporary evidence that Co-operative Models for both marketing and procurement can provide a framework for development that can be adapted to indigenous and other communities that find themselves otherwise in some sense 'excluded' from whatever it is that might be called the 'mainstream' as defined by the realization of the UN Sustainable Development Goals (SDGs). Well-coordinated co-operatives have provided, in many diverse societies and historical contexts, a great step forward in the development of inclusivity within nation states with histories of widespread impoverishment of working people and small farmers as well as the oppression of minorities (Birchall, 1997). Their commercial success depends on a not-for-profit market efficiency, coverage, and operational strength to manage resources to procure customers and suppliers, enabling the incremental accumulation of capital (finance, land, buildings, and plant) to meet the requirements of their members and communities living in both rural and urban areas.

However, most of these historical examples have taken place in the context of philanthropic leadership in situations of shared cultural values and traditions (Shaffer, 1999). Introducing systems operational in one culture into that of another, as is the case of introducing co-operative business models into indigenous communities, without consideration of the cultural and historical contexts of the recipients are unlikely to be successful. Engagement must commence with careful trust building grounded in ethnographic studies led by the communities themselves to

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establish co-operative priorities. The specifics of each community need to be understood and engaged with. The approach of adapting community-based subsistence economies to market needs requires critical re-evaluation in the light of growing awareness of indigenous knowledge and management of habitat (UN Environmental Programme, 2020). Responding to the needs of indigenous and other excluded communities as well as equipping those established co-operatives, both large and small, for resilience in face of today's global and complex set of existential threats needs the co-operative movement's seventh principle of 'Concern for Community' (International Cooperative Alliance (ICA), n.d.) to be reassigned as its first. The research proposal starts with two questions concerning the application of co-operative strategies for realising the UN sustainable development objectives in indigenous and other excluded communities. First, should the project consider knowledge transfer as a two-way process? Second, should the so called 'donor' agencies not also have as a project objective the transfer of indigenous, and other excluded communities' knowledge as a possible reservoir of knowledge for managing change and resilience in the mainstream society / economy model?

The foundational guiding principle of this research project is that the key building block of a progressive modern social system relies on the existing conviction for justice (Dias, 1994). Resource scarcity and economic polarization against increasing incidents of severe weather, food shortages, inflation and the ravages of war and sectarian violence make the realisations of justice difficult. Peace without economic development can be hard to maintain (Paz, 2015, pp. 165-168). Co-operatives, as not-for-profit autonomous associations of individuals sharing principles and purposes based on delivering individual and community development, may be in a better position to reach out and adapt in response to the issues facing the indigenous and excluded communities from the perspective of the community. There is clear evidence in the context of European and North American historical experience that co-operatives, particularly in the areas of agriculture and financial services, can have a major impact on impoverished and excluded communities. The most prominent example of an oppressed ethnic minority that has raised itself up through a strong sense of cultural identity and solidarity using a co-operative business model adapted to their culture and needs amid war and oppressive regimes are the Basques in northern Spain (Bajo & Roelants, 2011, pp. 176-212).

The Importance of Indigenous Communities

There is a convincing body of research published in various academic journals that co-operatives are playing a significant role in reviving society from pandemics and providing platforms for opportunities for women, youth, migrants, and inclusivity in communities. There is, however, much less research and experience of co-operation among indigenous and other marginalised / excluded communities. When referring to indigenous communities the following definition is helpful.

> *Indigenous peoples have historical continuity or association with a given region or part of a given region prior to colonization or annexation; identify themselves as indigenous and be accepted as members by their community; have strong links to territories, surrounding natural resources and ecosystems; maintain at least in part, distinct social, economic and political systems; maintain, at least in part, distinct languages, cultures, beliefs and knowledge systems; are resolved to maintain and further develop their identity and distinct social, economic, cultural and political institutions as distinct peoples and communities; and often form non-dominant sectors of society. (UN Environmental Programme 2020)*

Today, there is a growing realization of the important role indigenous communities have in the front line for defending habitat, particularly against rainforest destruction. It's becoming clear that the maintenance of indigenous ways of life are closely related to their significance as protectors of habitat, biodiversity, and important natural sources of carbon capture. Indigenous people have a special relationship with the land on which they have lived for generations, sometimes for tens of thousands of years. They possess crucial knowledge about how to manage natural resources sustainably and act as guardians or custodians of the land for the next generation (Sengupta, 2015).

> *At least a quarter of the world's land area is owned, managed, used, or occupied by indigenous peoples and local communities. While nature in these areas is degrading less quickly than in*

others, the impact of climate and ecosystem change has a direct impact on local livelihoods. (UN Environmental Programme, 2020)

Climate change is already impacting seriously on the arctic-ranging indigenous peoples of the northern hemisphere, and climate change can expect to hit small ethnic communities of hunters and gatherers and pastoralists in Africa. On the other hand, the increasingly dense urban populations' dependency on extended supply chains and vulnerable technological eco systems along with air pollution, the fragmentation of societies, loneliness, deteriorating mental health, poor housing, crime and various forms of addiction and dietary challenges for the poor suggest that, in terms of wellbeing and happiness, life in the modern mega city may be less than ideal for the poor.

The project research recognises that there may be a delicate and difficult path to tread between supporting indigenous communities' resilience to combat the forces threatening their way of life and the increasing onset of climate catastrophe without undermining their community, culture, and identity. Another dimension to this research, however, is the search to understand what lessons and knowledge transfer opportunities for the development of policy in the support and development of marginalised and excluded communities may emerge from working with the indigenous communities living outside the modern economic system. The marginalised communities within our economies form part of an alienated strata at the bottom of, or excluded altogether from, a dual labour market (Averitt, 1968), which, with the development of technology since the 1960s, has resulted in a technologically dual labour market itself a barrier to social mobility (Norgaard, 2003). Globalization has reduced the real taxable revenues that could have funded a welfare grounded social democracy. Thus, poverty is increasing in the midst of affluence and high GDP figures as governments cut back in real terms their social welfare budgets.

2. The Indian Experience

What follows in this section is a summary of part of my PhD research. There is a substantial number of indigenous people, generally referred to as 'Adivasi', in India. The term has a Sanskrit origin meaning 'one who is living in a location from very olden times', thus the original inhabitants of the land (Kulkarni, 1974). These are communities not forming part of the mainstream ethnic grouping in India's population today and their rights are often ignored. They generally lack the knowledge and resources to defend themselves from predatory attacks by members of the dominant ethnic groups. The major economic issue faced by these communities is the lack of organized markets as well as financial institutions to promote their products. But simply providing for more effective marketing for their craft-based artifacts, textiles, ornaments, paintings, potteries, cane and bamboo products, and organic and natural food products may not be sufficient to protect their communities. They may need infrastructure to help them manage their increased income which can have negative as well as positive impacts. Indigenous communities may need infrastructure to develop cultural solidarity and climate resilience as well as building greater local food security in the context of increasing national shortages and inflation. Minorities are vulnerable to persecution in times of national crisis even though they had no role in its cause. Increased affluence can also lead to them losing their historic cohesion and falling prey to the worst corrosive elements that afflict mainstream societies, such as drugs, alcoholism, and a drifting away from community values. In this way the community fails to profit from its produce (Muniraju & Sirisha, n.d.).

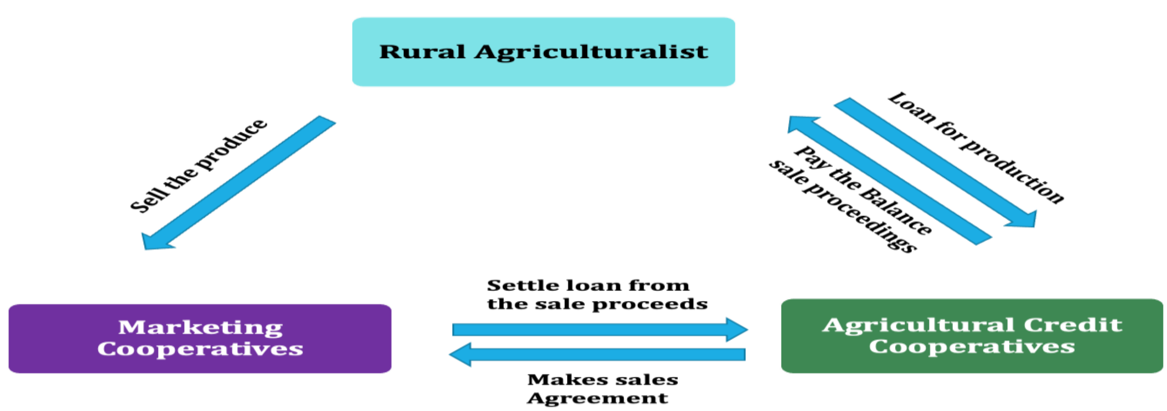
Engagement for resilience requires those agencies promoting co-operative solutions to recognise and research the specific features of the indigenous community, informed by a recognition that such peoples are hesitant to allow access to anyone outside their own community. They are suspicious because the indigenous communities have been exploited in the past and currently, and such negative experiences make them less open to the possibilities of engagement with the wider society / economy. My PhD research project aimed to understand how the Co-operative Marketing Framework developed from the existing agricultural credit co-operative models established elsewhere, was being replicated among the indigenous co-operatives in Kerala. It explored Government policies for implementing the concept of linking credit with marketing and developing a Co-operative Marketing Framework to resolve the disadvantaged circumstances faced by these Indigenous communities. The hope was that such a strategy would contribute towards attaining some of the UN Sustainable Development Goals.

Why the Indian Government sought a Co-operative Solution rather than a social enterprise model

A paradigm shift had triggered a strategic re-focus resulting in the rise of the concept of the social enterprise (Agarwal et al., 2018). The area of social entrepreneurship has been portrayed as a phenomenon created to address urgent social challenges through innovation on a global scale (Osberg & Martin, 2007). The advantages of co-operatives as subsumed within the social enterprise concept as ensuring inclusive sustainable development was seen to be more profound. Co-operatives are grounded not simply in economic development per se but in community building economic development and individual education. *Co-operatives are the type of institution for whom economics is a means not an end*. Co-operatives are institutions grounded in an inclusive idea, addressing larger social concerns, although their inherent nature is highly focused on distributive economic attributes (Franco et al., 2010). The success story of co-operatives in the end is usually connected with those co-operatives that have been created to overcome all aspects of human need (Alavosius et al., 2009). The utility of co-operatives for serving the underprivileged population is very much an indicator of the importance of co-operatives in the context of inclusive sustainable development (Castilla-Polo & Sánchez-Hernández, 2020). In short, co-operatives, once facilitated in partnership with the state, can proceed to exist without the state's continuing involvement. They can operate autonomously with other market actors providing services to their members and their communities. Co-operation was very central to post-imperial India.

Statistical data on co-operatives in India show that there is a larger presence of co-operatives in the rural landscape, which is precisely the context for the indigenous communities (Ghosh, 2007). It may also be stated that the countryside is also the focal point for conflict. Without research and policy actions now, pressure on land usage, water supply and rising populations can be expected to exacerbate these tensions in the future. The number of co-operatives in India is 0.8 million and the membership strength is around 274 million. It is a fact that most such co-operatives work in rural India (Mohammed, (2015). The concept of linking credit with marketing means the Credit / Agricultural credit co-operatives provide loans to the rural agriculturalist and direct them to sell their products in the marketing co-operatives concerned. Once the products are delivered, the marketing co-operatives will settle the loan amount with the credit co-operatives and the balance is paid to the rural agriculturalist. This familiar framework for linking credit with the marketing concept is explained in Figure 1.1 below.

Figure 1.1: Linking Credit with the Marketing Framework



This model has a tried and tested record of helping prevent the rural agriculturalists from getting exploited by intermediaries and loan sharks.

Are top-down strategies the right approach?

The research needs to establish how adaptable a multi-purpose co-operative entity might be to build upon existing traditional relationships. Such relationships are not grounded in financial systems with avenues for availing credit, or a place to store or sell their produce. The formation of Large-sized Adivasi Multi-Purpose Societies (LAMPS) was suggested by the Bawa Committee, which was implemented in different parts of India and in almost all provinces

(Lele & Rao, 1996). These top-down co-operatives were to deal with those indigenous communities who were seen as ill-equipped to identify and respond to the nuances of the complex developed structure of the present political system. This initiative, however, generally failed, resulting in the closing down of LAMPS in different parts of the country. The government of Kerala, a State in the southwestern part of the Indian subcontinent also took up this central government initiative but many of these co-operatives are closed or moving towards closing due to financial and marketing issues (Lele & Rao, 1996).

In Kerala, Co-operatives for Indigenous communities are categorized as Scheduled Caste (SC) and Scheduled Tribe (ST) co-operatives. As per the statistics of 2022, there were 99 ST Co-operatives among which only 52 are functioning now. In the case of SC Co-operatives, among 738 only 382 are functioning now (Department of Co-operation, Government of Kerala, n.d.). *The lessons of these failures are an important starting point for further research into the applications of credit with marketing co-operatives to support indigenous communities.* Co-operatives as a genuine approach towards community growth and development must first be the result of voluntary engagement. The key co-operative principle of Voluntarism is the starting point. The indigenous people's engagement with co-operatives must be based on their perception of their needs and feeling they are in control and have ownership of the project. Research therefore needs to be informed by an ethnographic grounding to establish indigenous community needs as defined by the indigenous community itself.

The Census 2011 shows the Indian indigenous population constitutes about 8.9% of the total population in India. They are spread across the country and reside in the forest and hilly regions of the country. But they are ignorant of their rights and lack access to the mainstream (Muniraju &. Sirisha, n.d.). Some authorities argue there is a need to sensitize the indigenous population about the importance and values of socio-economic concepts and structures (Novkovic & Golja, 2015). However, it may be that the introduction of co-operative marketing structures needs to be built up through pinpointing indigenous community needs as the first step. Secondly, through discussion of their grievances we may be able to identify and access resources through co-operative action to enforce their legal rights. At an appropriate time, supported by established co-operatives, NGOs and state agencies from the mainstream community, it may be possible to engage with the indigenous communities on their terms rather than that of the state. The evidence demonstrates that simply attempting to transfer top-down models based on contemporary society and history does not work. The global climate crisis and hegemonic superpower rivalries, polarized societies, and the technological ecology informing globalization might give 'experts' from the developed world pause for reflection and even humility. India's co-operative strategies as in all countries do not take place in a vacuum but in a political economic context.

3. Co-operative Internationalism versus Neoliberalism's Globalization

There are three rival ideological perspectives as to how capitalism should be operated. Neoliberalism (USA), authoritarian capitalism (China today but there have been different manifestations across the previous two centuries), and social democratic capitalism (European Union). The first has been particularly active fueling the globalization process that seeks to place all human institutions and societies under the sway of a so-called market economy driven by consumer choice. In fact, as the technological revolution progressed, a surveillance economy emerged dominated by giant platform capitalisms in the US, and huge state-controlled corporations in China. The fourth model is more a rough blanket term, 'crony capitalism' (found in most of southeast and central Asia, Africa and Latin America) where varying degrees of democracy exist but which in all cases are manipulated by ruling elites (Davis, 2022). Co-operatives offer principles and purpose that is human centered. Their values and principles around the world are in direct contrast to Authoritarian and Neoliberal forms of Capitalism but are consistent with Social Democratic Capitalism and have the possibility to gradually transform the various forms of crony capitalism into Social Democratic polities (Davis, 2022). It is important to recognize these macro differences in political economic formation of capitalism in philosophy and ideology at the global level when operating at the local level. These contexts form an often critical and sometimes insurmountable barrier for protecting indigenous communities and generating democracy, welfare, and distributive justice. As a result, Co-operatives are themselves a contested terrain (Davis, 2022). Co-operatives can be used for control by the state and the elites who control it. Maintaining ownership of the land is the critical role for a co-operation that seeks to emancipate the poor everywhere. The key to indigenous people's development and emancipation as opposed to their incorporation and extinction lies in their holding onto the land. Co-operative interventions must aim to support the poor everywhere in holding onto their land where they have any.

Community led Co-operative Development

All Co-operatives need development and strengthening by implementing innovative strategies to build resilience to their, often hostile, political contexts, the numerous existential threats their members face, and to support outreach to the poor both urban and rural. There are particularly acute challenges for indigenous communities. Notwithstanding, the research will probe the possibility of such communities providing lessons applicable to the wider context of an increasingly excluded and marginalized class. Whilst in theory it has been argued any organizational structure has an inbuilt concept of establishing a separate wing for innovative products that could contribute to society, it must be conceded that service-driven not-for-profit organizations with co-operative structures and principles are more likely to want to do so. The 'Ambidextrous Organization' is an organizational development concept coined by R. Duncan (O'Reilly & Tushman, 2013). It indicates an organization's ability to be aligned and efficient in its management of today's business demands, as well as being adaptive to changes in the external environment.

Co-operatives, with their identity and commitment to care for the community, need more than any other to develop innovative strategies which will help in coping with the mounting threats and instabilities arising from globalization and the economic and political polarization. Climate change and a technological revolution that threatens to get out of control may but put co-operative purpose and the social democratic framework of political economy beyond reach. Co-operatives, by carrying through the concept of linking credit with marketing *when focused on community development*, might generate economic resources for resilient local communities. Thus, protecting respect and identity within indigenous peoples' traditions whilst responding to the pressures generated by modernity's positive and negative consequences is the focus of the proposed research. This requires exploring the possibilities from within the indigenous and marginalized communities. If a co-operative marketing framework can be developed to serve community without seriously disrupting the subsistence economy, then researchers may be close to a strategy for transforming the welfare and opportunities for impoverished communities across the globe without adopting the economics of a growth led consumerism that threatens the planet ecologically and humans physically and spiritually (Pope Francis, 2013; Alford, 2019). The possibility of a co-operative marketing framework needs to be explored that sees community determined development goals informing credit and marketing strategies. Establishing 'Concern for Community' principle 7 in the ICA Co-operative Identity Statement as one that informs the development of business strategy might well be considered a very different approach in many co-operative circles and may require an evolution from an economistic functionality that has informed traditional co-operatives as they have evolved over the last century and more. This may require co-operative 'ambidextrous' organizations, i.e., departments developed to integrate business policy to support the indigenous community development, not top down, but rather one that has been evolved out of the indigenous peoples' struggle to survive and prosper. Such a framework may be of wider use in any part of the world or in any community seeking to preserve its way of life in the face of globalization, climate change and the digital revolution. For such local resilience to be protected may require an intensive global co-operative ideological awareness and even ideological repositioning (see for example, Puusa, et al., 2022).

4. Co-operative Marketing Framework (CMF)

A key element of the research will require a thorough investigation of the published research evaluating the Co-operative Marketing Framework, and the trading and other that emerge.

4.1 Stages of the Co-operative Marketing Framework

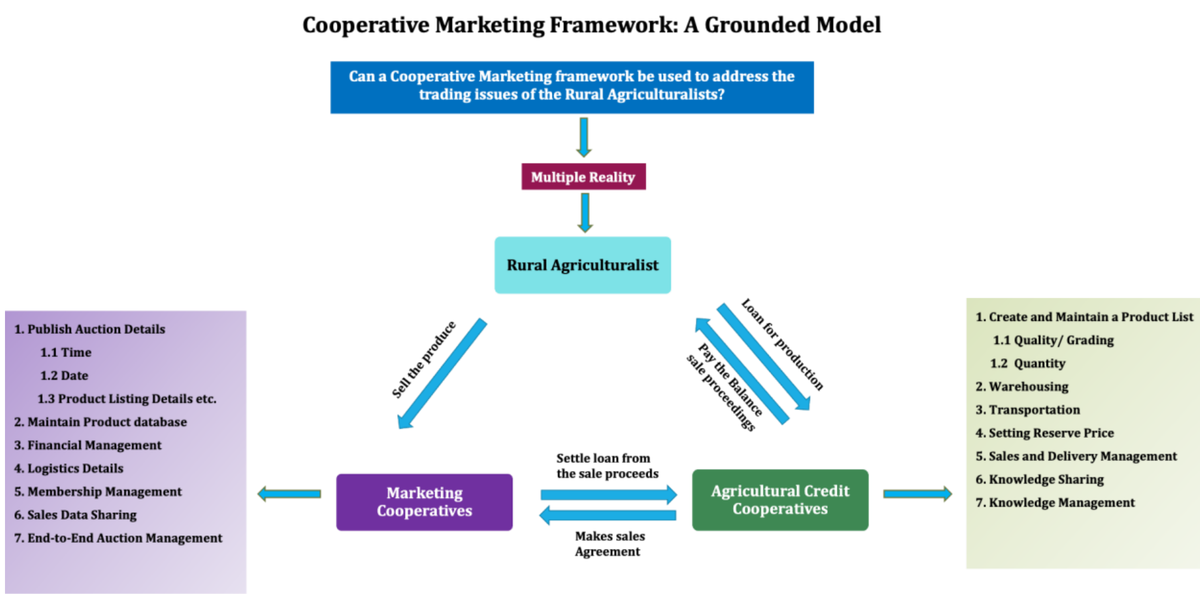
Suggestions for different process stages of the Co-operative Marketing Framework are explained as follows:

- Firstly, the rural agriculturalist who is in need of loans for the production of their agricultural produce has to approach their agricultural credit co-operative.

- Then the co-operatives have to verify the documents and get the details about the product from the rural agriculturalist, so as to access the type and approximate amount of the products to be produced.
- After the harvest the rural Agriculturalists have to deliver the products to the concerned marketing co-operatives. Ideally, the product description, quantity and quality, and so on will be submitted along with it.
- In the next stage, the Marketing co-operatives have to verify the corresponding product quantity and quality and complete a proper grading process.
- Then the marketing co-operatives will settle the amount with the agricultural credit co-operatives and the balance amount after settling the loan will be paid to the rural agriculturalists.

Hence the co-operative marketing framework can act as a communication channel and one-stop shop for rural agriculturalists, with the ability to develop sales and market data for forecasting.

Figure 1.2: Co-operative Marketing Framework: A Grounded Model



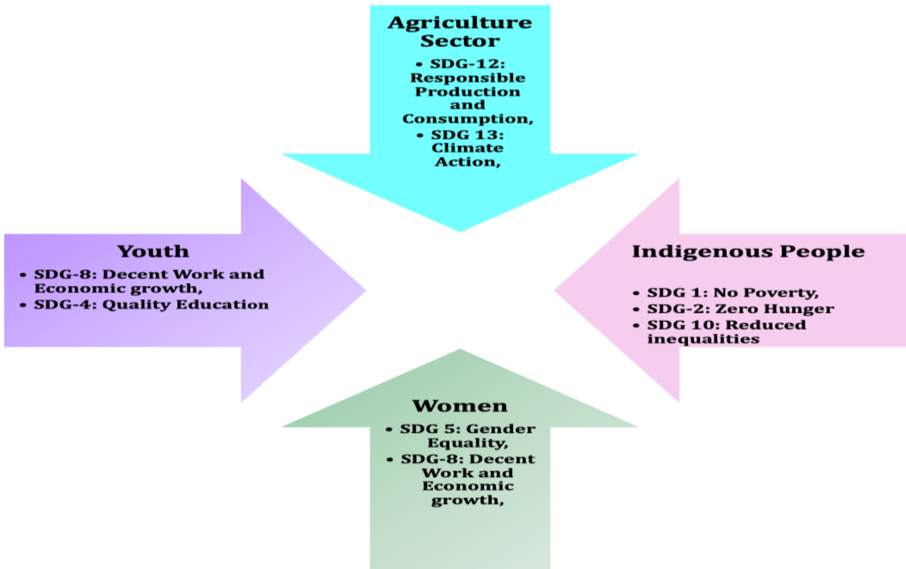
4.2 Aims of Co-operative Marketing Framework

The main aim of creating such a Cooperative Marketing Framework is to provide for rural agriculturalists critical services in non-exploitative conditions. The major benefits are envisaged as follows:

- Creating benefits for the Rural agriculturalists
- Avoiding the intermediaries of trading channels
- Forecasting the demand and supply
- Planning the trading in advance
- Enabling transparent transactions
- Reducing bad debts
- Levelling Up by providing an opportunity for growth
- Developing a database for the agricultural produce
- Creation of a Cooperative Marketing Framework
- Addressing the principles of ‘Cooperation among Cooperatives’ and ‘Concern for Community’
- Achieving the Sustainable Development Goals

The Co-operative Marketing Framework will help rural agriculturalists avoid getting exploited by intermediaries and fetch the best price for their products. On top of this, as Figure 1.3 shows, the model will help to attain the Sustainable Development Goals, particularly SDGs 1, 2, 4, 8, 10, 12 and 13- No Poverty, Zero Hunger, Gender equality, Reduced inequalities, Decent work, Responsible Consumption and Production and Climate action.

Figure 1.3: Contribution towards the Sustainable Development Goals



5. Statement of the Problem

5.1 Primary Research Questions

Co-operatives are possibly the best form of organisation to find a solution for the difficult circumstances that can arise due to oppressive regimes, technological change, and market forces leading to impoverishment of workers, producers, and consumers (Ramkishen, 2009). They can also be argued to be better than other forms of social enterprise because their members are the real owners of the organisation. Transparency in their democratic model of governance, while far from perfect in practice (Davis, 2017), is better placed than most of the alternatives to ensure that they will not do any harm to their members or the wider society (Cull et al., 2007). Co-operatives do not guarantee a move towards sustainable living and the defence of community against agribusiness plantations, but their principles and values - where they are followed - strongly imply such outcomes. An important aspect of this research will be to explore the answer to the following question:

1. *How far is an agricultural marketing model relevant to the needs of a subsistence-economy - based community in crisis?*

In the Indian context, the major characteristic of the indigenous community can be explained as isolation, social, economic and cultural. Lacking proper infrastructural facilities and so forth for their integration into mainstream society and economy (Sharma, 1987), the Indigenous are viewed as 'backward' by the policy makers in Government and by majority opinion in India. Viewed as 'illiterate', meaning they do not speak the lingua franca of the mainstream, the lives of the indigenous population are isolated from the rest of the world in the hills and forests. This is viewed as a major reason for their 'socio-economic backwardness', their alienation and their alleged inability to harness the available resources in an advantageous manner as measured by the western model of economic rationality. They neither have the right over the resources as bestowed by the State, which they extract, nor do they have proper transportation or communication, and they 'lack proper awareness' in terms of market rationality. Modernisation, so it is argued, will facilitate the economic uplifting of these peoples, and will certainly go a long way in ameliorating the variety of problems faced by these communities (Mahalingam, 1990). There is a growing body of research, however, that challenges this view of the indigenous communities (UN Environment Programme, 2020). In some parts of the world their agricultural and forest land faces deforestation and plantation movements by outside commercial interests and there is also exploitation by money lenders, middlemen, and traders (Hajela, 2010). To solve these issues and to make sure that justice is served will require sensitive co-operative research focused on the preservation of their communities as the priority evaluated against benefits of models of modernisation and integration into the globalised economy. The aim would be to continue the indigenous community accessibility to forest products, develop appropriate job opportunities, credit facilities, housing, irrigation and so forth for their own uses and sale on to others. Thus, the second question the proposed research wants to address is as follows:

2. *While creating new avenues for trade, can preserving the indigenous peoples' land, identity, and community be seen as a legitimate sustainable development goal?*

Co-operation has been a key element in reform movements since the Industrial Revolution with Britain being the home of some of the earliest experiments of various approaches to co-operative organization and where the first set of co-operative principles was established at the 1832 Congress in London, chaired by Robert Owen (Webb, 1904). The early idea of co-operation and co-operative credit can be found in France, Germany, and North America in the 19th Century and became a key instrument in the management of social problems in the British Empire, first in India, and then wider afield as the model for the rest of British Africa, South East Asia and the Caribbean (Rhodes, 2012). Co-operatives were also used as tools for forced collectivization programs under Communist regimes. It must be recognized, therefore, that globally, co-operation carries a considerable amount of baggage, not all of it positive, and thus research into the application of co-operative solutions to indigenous or marginalized and excluded communities must commence not from the co-operative past but from the global present and the perspectives and needs of the indigenous and marginalized / excluded communities themselves.

In my doctoral research, it was clearly identified that there are a lot of regulatory constraints that restrict the members from using their funds according to their circumstances. There may be a wider need therefore for the co-operative movement to free itself from state controls. A top-down strategy for indigenous co-operatives might be similar to the mainstream approach that sees co-operation as a means to manage poverty, maintain control and to ultimately incorporate those outside of capitalism through loss of their independent means to subsistence. My PhD research brought to light the fact that top-down indigenous co-operatives' regulatory support was inadequate to engage indigenous peoples in India. This research proposal, therefore, is envisaged as a continuation of my post-doctoral study but in terms of seeking bottom-up approaches more concerned with building resilience and community on the terms required by the indigenous peoples themselves. The research literature review recognizes that theoretical models for co-operative organization linking market-based co-operatives in an interface with informal non-monetary community-based co-operatives has been suggested previously but never tested empirically (Davis, 2000). Such an approach leads to the third key question for the proposed research:

3. *Can applying the 'ambidextrous' organization model be a facilitator for co-operative community and anti-poverty subsistence strategies to improve marginalized communities' well-being by a limited engagement with the monetary economy and, at the same time, strengthen identity and lifestyle choices?*

5.2 Subsidiary Research Questions

i. What are the issues faced by the indigenous and marginalized / excluded communities?
ii. To what extent are funding agencies sufficiently sensitive to community priorities?
iii. To what extent do the resilience priorities of indigenous and marginalized / excluded communities parallel the agenda for preventing climate catastrophe, habitat degradation and species extinction?
iv. How might developing credit linked to marketing co-operatives with a focus on trading support indigenous peoples and their community priorities and ensure greater resilience?
v. How might the concept of an 'ambidextrous' organization be a part of co-operatives in the context of the existential crises that confront all communities?

vi. Could an ‘ambidextrous’ organization be a facilitator for the formation of co-operative auxiliary organizations to support indigenous and / or other marginalized or excluded communities and all other communities and classes in struggle for justice and peace?
vii. What are the possible ways through which the issues in trading the produce of the indigenous co-operatives could be resolved?
viii. Is linking credit with marketing a feasible option for existing indigenous co-operatives?
ix. What are the legal provisions for linking credit with marketing in the host country?
x. What are the policy changes that could be adopted for developing a co-operative self-help solution?

5.3 Research Objectives

1. To provide answers to the three overriding research questions.
2. To support the protection of habitat, species, and alternative lifestyles in the face of a homogenization of culture, the destruction of the natural world and the increasing centralization and polarization of power.
3. To find a co-operative strategy which not only preserves existing alternative communities but explores the possibility for those seeking an alternative to the current consumer society and wage-based economy to find a way out.

5.4 Methods and Approach

The research design will involve a cross-sectional study employing a mixed methodology that systematically integrates both qualitative and quantitative data within a single study. The research will need to be informed by an ethnographic approach in collecting community-based data, but placing this in a political, economic and institutional perspective identified from a realist philosophy guided by co-operative ethical values and informed by the four key secular principles of Catholic Social Doctrine, addressed to all men and women of goodwill: the dignity of the individual, the common good, subsidiarity, and solidarity.

6. Expected results

The proposed research will develop an alternative low to zero growth model for resilience and global cultural heterogeneity as opposed to growth focused on ‘trickle-down economics’, consumerism and seeking technological solutions to climate change. By exploring the possibility of creating a co-operative marketing framework for produce, the rural agriculturalist can look for a trading channel that could avoid exploitation by the intermediaries and fetch the best prices for their products in an organisational context where transactions are transparent. The research hopes to adapt such a model for improvement of well-being without incorporation and transformation of indigenous and other marginalized / excluded communities’ lifestyles and values. In short, a new strategy will be defined for co-operative development grounded in the principle of ‘Concern for Community’ supported by that other neglected co-operative principle of ‘Co-operation among Co-operatives’, making possible the development of a sustainable society. The major expectations are as follows:

- The establishment of links between the big financial, agribusiness, consumer co-operatives with micro co-operatives in the low-income sectors of the global economy
- Supporting the indigenous communities and their existing co-operatives
- Sustainable development through an adapted Co-operative Marketing Framework
- Identifying the scope of co-operatives as an Ambidextrous organisation
- Identifying the good life in community, nature conservation, carbon and other pollution reduction, and non-exploitative relationships
- Building towards a human centred and creation centred development model.

The issue is to mobilize the funding to ensure a sufficient number of broad-based research projects across the globe. The above paper is not just a proposal for the project the researcher wants to undertake but a proposal for a thousand community-based research projects supporting indigenous and marginalised / excluded communities and those who, faced with the existential threats of just carrying on, would like to exclude themselves from the growth led consumer economy.

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The Multi-Dimensional Value of Patronage Refunds in Consumer-Based Food Co-operatives

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Abstract: This study explores the use of patronage refunds in consumer-based food co-operatives in the United States. Its purpose is to advise the Willimantic Food Co-op (WFC), located in Connecticut, about the potential benefits of introducing patronage refunds after it reincorporates under the State's recently updated co-operative statute.

Based on academic literature, a conceptual framework for shared business/member value was developed. It shaped the rest of the research design, which included interviews with general managers of U.S. food co-ops and a member survey at WFC. The results demonstrate that the value proposition of the patronage refund has evolved and, today, the patronage refund provides significant business value and also appears to be a source of multi-dimensional value for members, both individually and collectively. Patronage refunds can positively impact shared value in modern-day consumer-based food co-ops by helping to reconcile the tensions between individual and mutual interests that often exist within co-operative enterprises. The study provided recommendations for WFC around introducing patronage refunds and has implications for other food co-ops using or considering them.

Patricia Smith has been employed at Willimantic Food Co-op in various roles since 2007, serving as Operations Manager for the past nine years.

Keywords: consumer-based food co-operatives, patronage refunds, value proposition, multi-dimensional member value.

Introduction

Returning surplus to members in proportion to use is a foundational co-operative benefit that goes back to the Rochdale Society of Equitable Pioneers and earlier (Birchall, 1994). This practice, generally referred to as a "patronage dividend," "patronage rebate," or "patronage refund,"[1] is encapsulated in the Third Co-operative Principle, "Member Economic Participation," which states, in part, that "Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; *benefiting members in proportion to their transactions with the co-operative* [emphasis added]; and supporting other activities approved by the membership" (International Co-operative Alliance, 2015, p. 29). Co-operative businesses of all types distribute surplus to members based on use – in worker co-ops use is based on hours worked, in producer co-ops on products processed or marketed by the co-op, and in consumer co-ops on amount of goods or services purchased from the co-op. In all cases, use of the co-op by members is known as "patronage" and the benefit returned "in proportion to their transactions" often takes the form of a monetary distribution after an accounting period (Allocating Surplus, n.d.).

Returning surplus to members is fundamental to the co-operative business model, in which goods and services are provided to member-owners at cost, or at the "lowest possible cost" (Frederick & Ingalsbe, 1993, p.1), distinguishing it from capitalist business models whose primary purpose is to maximize profits for investors (Frederick & Ingalsbe, 1993, p.1). While a co-operative needs to generate enough income to cover operating expenses and to reinvest in its business, in a consumer-based co-op any income beyond those capital needs is considered the result of overcharging members for goods or services. In the United States, the patronage refund is codified in federal tax law as a tax advantage for businesses recognized by the Internal Revenue Service (IRS) as co-operatives (Frederick & Ingalsbe, 1993).

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According to IRS rules, all surplus from business done with members can be declared as patronage refunds, qualifying it as a deduction to the co-op's taxable income as long as a minimum of 20% of the declared refund is distributed to members in cash. The remaining 80% may be retained as equity in the co-op and deducted from a co-op's taxable income if it is allocated to internal capital accounts in the members' names. This equity can be treated as working capital until or unless it is later distributed to the member when, as a refund on an overcharge in a consumer-based co-operative, it is similarly not considered taxable income for the member (Mayer, 2015).[2]

This research project explains the use of patronage refunds in food co-operatives in the U.S. and explores the implications for instituting the practice at the Willimantic Food Co-op (WFC). The study draws on academic literature and interviews with several food co-op general managers to create a historical, theoretical, and contemporary practical framework for the use of patronage refunds in co-ops in general and in retail consumer food co-ops in particular.

The project also explores the use of patronage refunds as a unique source of value in co-operatives, particularly in the context of aligning a co-op's business interests with those of its members and in supporting the Co-operative Identity (International Co-operative Alliance, 2015) or co-op advantage (e.g., Novkovic, 2008; Fairbairn, 2003, Birchall & Simmons, 2004). It presents data from a recent survey of WFC's members that indicate what they value about their relationship with their co-op and how supportive they might be of using patronage refunds at WFC.

The project concludes with implications and recommendations for WFC about using patronage refunds and engaging members to gain their support for introducing the practice.

Background

The Willimantic Food Co-op (WFC or "the Co-op") is a retail grocery store specializing in natural, organic, and local foods. It has approximately 6,500 consumer-members, an annual revenue of $6 million for 2021, and 35 full- and part-time employees. In 1979, the Co-op incorporated in the state of Connecticut as a nonstock corporation, and in 1980 the founding members transformed their buying club into a small retail storefront operation. The Co-op has grown slowly and steadily since then, with a significant increase in sales and membership after a move to a larger and more visible location in 2006.

Retail grocery is a very low margin industry, and the natural/organic segment has grown increasingly commoditized and competitive in recent decades. Despite its steady growth, until 2013, WFC had mostly operated at a loss, broken even, or earned a modest net income, so the question of distributing surplus to members was rarely, if ever, discussed. However, in 2013, WFC joined the National Co+op Grocers (NCG) association, a second-tier co-operative federation that pools the purchasing power of food co-ops across the United States to achieve lower wholesale costs from major distributors (National Co+op Grocers, 2013). Joining NCG immediately resulted in significant cost reductions on goods and increased margins leading to a consistently positive net income – an average of 2% of sales per year for the past six years. At the same time, Co-op shoppers - members and non-members alike - realized significant individual savings due to WFC's relationship with NCG, mostly in the form of product discounts.

The consistently positive net income, along with a sense that there was an increasing need to engage members in WFC's Co-operative Identity[3], prompted the Co-op's leaders to begin considering how to deal with positive net income, including the option of treating it as co-operative surplus and returning it to members via patronage refunds. It was unclear whether the Co-op would qualify under the IRS rules for distributing patronage refunds in its current corporate form as a nonstock corporation, which led WHC to explore the option of reincorporating as a co-operative in the state of Connecticut. This process led to amendments to the state co-operative statute[4] in 2019. WFC believes reincorporating under the revised statute will not only ensure its legal recognition as a co-op and therefore its ability to declare and distribute patronage refunds to members, but also enhance member recognition of WFC's Co-operative Identity and hopefully encourage other co-operative business formation in Connecticut.

WFC does approximately 85% of its business with members making it relatively clear that using patronage refunds as a legally recognized co-operative can create business value for the Co-op, at least in terms of a tax advantage and availability of additional member equity. It can also be an opportunity for members to provide a substantial amount of additional capital to the Co-op, in keeping with the Principle, “Member Economic Participation.”

Reincorporating and adding a provision for distributing patronage refunds to the Co-op’s bylaws require a member vote. Therefore, WFC leaders have identified a need to better understand and communicate the practical aspects of patronage refunds under U.S. tax law, as well as their philosophical significance within the co-operative business model, so that they can engage members in using this tool to work toward shared goals.

The purpose of this study, then, is to provide to WFC’s leadership team a foundational understanding around the use of patronage refunds in a consumer co-operative context and some recommendations for how to effectively communicate the benefits of this practice to members. Therefore, the leading research question is: Can surplus distribution via patronage refunds increase member value at WFC, and if so, how?

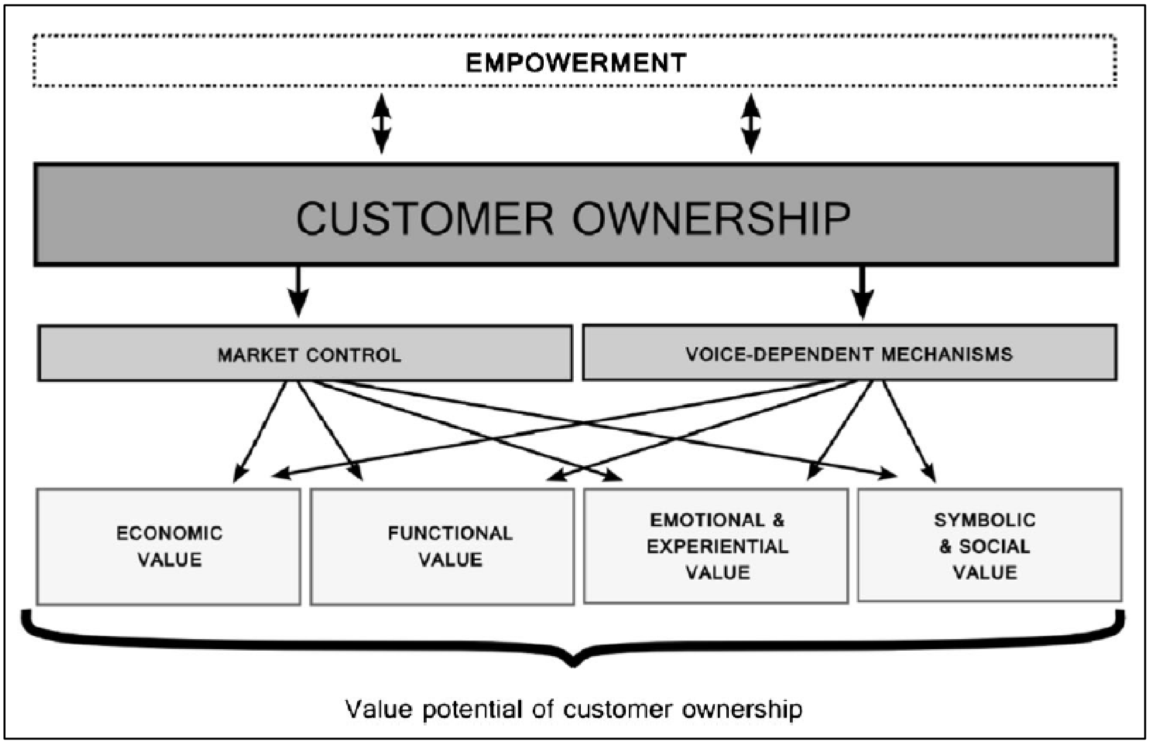
Conceptual Framework

A preliminary review of the academic literature on co-operative surplus distribution led from the Rochdale Society of Equitable Pioneers to the value proposition of contemporary consumer co-operation. Co-operative history and contemporary research show the potential of surplus distribution through patronage refunds as a key differentiator of the co-operative model that can establish and strengthen the bond between members and their co-op, leading to increased member value. Mazzarol et al. (2018) observed the connection between past and present: “The founding principles laid out by the Rochdale Society have remained a blueprint for co-operatives, encompassing: member ownership, democratic governance (i.e., ‘one-member-one-vote’), accumulation of share capital and profit distribution based on patronage, and member education” (p. 552). Mazzarol et al. (2018) also linked a co-operative’s capital structure and distribution policy to the member value proposition, which, along with purpose and share structure, is one of the three pillars of the co-operative business model.

One stream of research explores how members of modern-day consumer co-ops often do not fully understand or appreciate their unique status as user-owners, which can interfere with the development of “ownership feelings” and therefore inhibit realization of the co-operative advantage (e.g., Jussila & Tuominen, 2010; Jussila et al., 2012). Jussila and Tuominen (2010) explored the concept of *psychological ownership* in consumer co-ops, and Jussila et al. (2012) provided detailed implications for both management and governance in communicating with members about their ownership status, the meaning of consumer-ownership, and the unique ways ownership is exercised and expressed in a consumer co-op, including the significance of patronage-based surplus distribution. They emphasized the importance of drawing a clear distinction between the use of patronage refunds and loyalty rewards programs used by other retailers (Jussila et al., 2012, p. 199). This body of research links strong psychological ownership to increased member value.

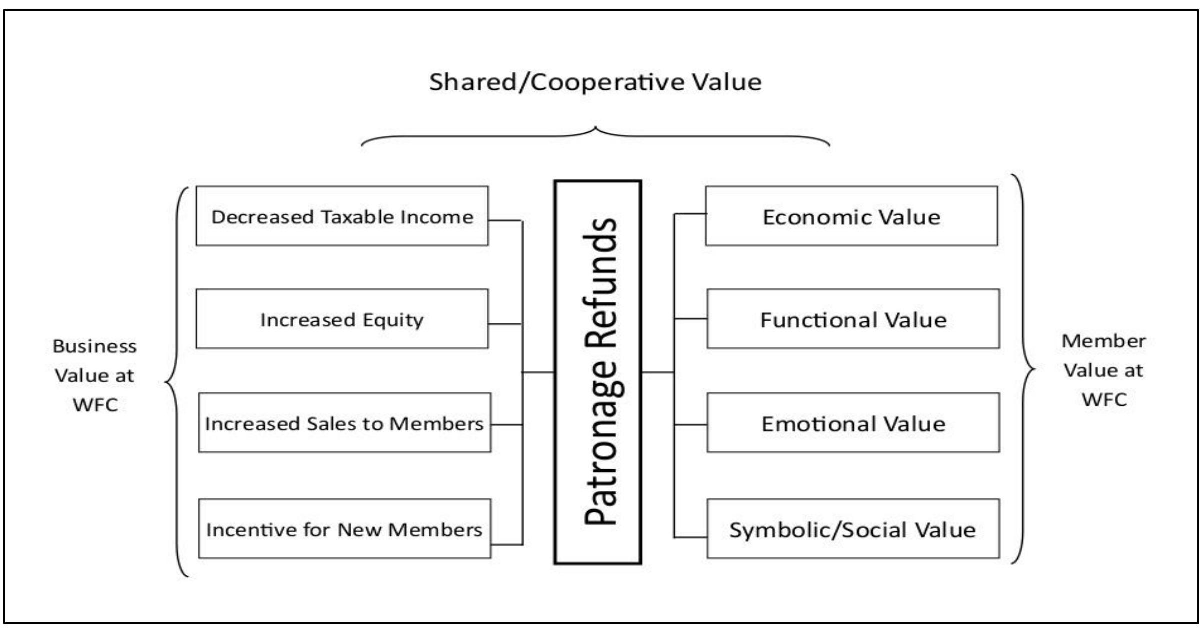
Talonen et al. (2015) explored the unique value potential of customer ownership more deeply. Their work leverages co-operative and mainstream business literature to show how consumer-members of co-operative enterprises are positioned to co-create value for themselves and the business along multiple dimensions, via direct and indirect empowerment mechanisms unique to co-operative ownership and governance. They identified and defined four dimensions of customer value: a) economic; b) functional; c) emotional and experiential; and d) symbolic and social (Talonen et al., 2015). Their conceptual framework is shown in Figure 1.

Figure 1: Talonen et al.'s (2015) Customer Ownership Value Potential Framework



Talonen et al.'s (2015) concept has been adapted for this research to position patronage refunds as a mechanism to potentially increase member value along any or all of the four value dimensions, in conjunction with the potential impact on business value, showing how the two sides combine to create shared co-operative value (see Figure 2).

Figure 2: Author's Framework for Value Derived from Patronage Refunds



Establishing this framework led to three research sub-questions:

1. What is the historical and theoretical significance of patronage refunds in consumer co-ops?
2. How do patronage refunds impact shared co-operative value at other consumer food co-ops?
3. What do WFC members value about their relationship with the Co-op?

The meaning and expression of the four types of member value and how they overlap to form a holistic (i.e., co-operative) member value proposition were explored through the following data sources: academic literature, consumer co-operative managers, and WFC's own members.

Methodology

The research began with a review of academic literature spanning the Rochdale Society (e.g., Birchall, 1994; Fairbairn, 1994; Kelley, 1998) to current consumer co-operatives (e.g., Talonen et al., 2016; Tuominen et al., 2013) to provide an understanding of the history of the patronage refund in consumer co-ops and its philosophical and practical importance to the co-operative business model.

Because the research was focused on retail consumer food co-ops in the U.S. as most relevant to the WFC context[5], it was then necessary to understand how and why such co-ops are currently using patronage refunds in their organizations. The National Co+op Grocers (NCG) association and its membership of 148 consumer and multistakeholder food co-ops across the United States (National Co+op Grocers, 2013) was a natural place to recruit research participants. General managers (GMs) of member co-ops were invited to send stories or perspectives around using or switching to patronage refunds from a different structure, and to volunteer to participate in a related interview. Six GMs and one consultant participated.

The GM interviews aimed to gather data from a contemporary practitioner perspective, specifically a managerial (as opposed to a member) point of view. The themes identified in the literature were a starting point for structuring the interviews and suggested questions. The interviews were semi-structured and designed to be topical yet open-ended enough to get the participants to talk about co-operative value in general and in relation to surplus distribution without leading them. A qualitative thematic analysis (Braun & Clarke, 2006) of the interview responses identified various themes and subthemes, many of which echoed concepts in the literature. The practitioner experience was then compared with the theoretical framework drawn from the literature. This discussion is presented below in the section entitled "Data Analysis: Theory and Practice."

Finally, it was necessary to learn something about how the member value proposition (Mazzarol et al., 2018) works at WFC, i.e., what do members value about the Co-op, and how could their member experience be improved? Might there be potential for patronage refunds to improve member value along any or all of the dimensions in the conceptual framework? The idea of patronage refunds would be new to many survey participants, so the survey questions were designed to ask more broadly what they value about the Co-op, with some very general references to member refunds. This approach was intended to generate themes related to the research questions that may or may not support the conceptual framework.

A manageable sample of 4,289 actively shopping members (those who had shopped at the Co-op between January 1, 2021, and February 9, 2022) was selected from the total membership of approximately 10,000. They were invited by email to take the survey electronically. The survey was presented as a chance for members to provide feedback to the Co-op as an organization, not as a research project (see the Appendix for the survey questionnaire). There were 1,097 full responses and 397 partial responses.

An analysis of the survey results is presented in the section entitled "Data Analysis: WFC Member Survey."

Data Analysis: Theory and Practice

Birchall (1994) observed that when the Rochdale Pioneers were developing their rules of operation in 1844, the "dividend principle" (p. 64) was the key to all the other co-operative principles and practices and clearly distinguished Rochdale from capitalist and worker-owned enterprises as a consumer co-op. The patronage refund "reconciled self-interest with mutuality" (Birchall, 1994, p. 64), creating a virtuous cycle of individual and collective benefit by creating savings for members, which stimulated more patronage by members, which created more efficiency and therefore more surplus, which then created more savings for members (Birchall, 1994), all with the ultimate purpose of meeting the common needs of the membership. Fairbairn (1994) pointed out that, at Rochdale, the patronage refund was a clearly defined retail co-operative practice that provided a "clear, measurable benefit" and "helped attract patronage" (p. 16).

The Value Evolution of "the Divi"

Many food co-ops in the U.S. use patronage refunds today – in fact, 111 out of 148 (75%) food co-ops within the NCG list patronage refunds as a feature of membership on their websites and provide for it in their bylaws. However, consumer co-operation and the market economy have evolved since the days of the Pioneers, introducing changes and complexities affecting the relative elegance and simplicity of what Rochdale members affectionately referred to as "the divi" (Kelley, 1998).

For example, unlike in Rochdale, most modern food co-ops allow both members and non-members to shop, which means that, according to the IRS, income earned from sales to members is considered "surplus" and can be deducted from taxable income, while earnings from sales to non-members is "profit" subject to taxation. It is important then to distinguish between these two terms when implementing a patronage refund system. Also, in Rochdale, patronage refunds could have significant economic value for the individual – members often counted on the payout of their "divi" to pay for basic necessities or build up personal savings against future hardships (Kelley, 1998). Today, in the U.S., the individual economic benefit of an average patronage refund payout in a consumer co-op is usually less significant, in part because co-operatives can retain up to 80% of declared refunds to members, distributing only 20% in cash or store credit to members (Mayer, 2015). In this case the *individual* economic value of the dividend is reduced, and the *mutual* benefit is increased, as the retained portion supports the long-term financial viability and sustainability of the business.

The experiences of the GMs interviewed mostly align with this theory that individual economic benefit is not a leading characteristic of today's equivalent of "the divi." Across those who provided data, the average annual member refund in 2021 was \$12.40, with the lowest being \$2.34 and the highest, \$155.86. The returns were paid on average total annual purchases of \$1,915 per member – an average individual return of .65%. All the GMs agreed that the refund payout generally does not create substantial financial value for most individual members, while the retained equity can help support the co-op's economic and social goals. As GM Tim Bartlett at Lexington Cooperative Market said, "the retained portion is so powerful" for the financial health of the co-op. On the other hand, Neomi Lauritsen at Springfield Food Co-op said that members were thrilled to receive their payout right before the holidays in 2021, considering the economic uncertainty created by the Covid-19 pandemic. Members were happy to receive a little extra cash towards their grocery bills and to know this meant the store was doing well. These examples support Birchall's (1994) suggestion that patronage refunds can help unite the individual and collective needs of members.

Member Linkage

The patronage refund has taken on increased functional and social/symbolic value since the days of Rochdale as a way to establish and maintain the essential and unique linkage - often referred to as part of the "co-operative advantage" (e.g., Novkovic, 2008, Fairbairn, 2003, Birchall & Simmons, 2004) - between the association of members and the business of the co-operative (Fairbairn, 2003; Scholl, 2015). It does this in a variety of practical ways: It can improve transparency and manager accountability (Birchall, 2000; Fairbairn, 2003); it can create opportunities to communicate with members about the short-term success and long-term objectives of the co-op (Tuominen et al., 2013); and, it can help members understand how their individual and collective interests are intertwined (Fairbairn, 2003, Scholl, 2015). Overall, the use of the patronage refund can support the dual economic and social nature of a co-operative (Novkovic, 2008) and enhance the cohesion necessary to sustain the co-operative business model (Cote, 2019).

At the co-ops included in this research, this functional and social/symbolic value of the dividend has been realized, at least from the managerial perspective. Each GM cited the annual patronage letter as an excellent opportunity to connect with members, bring awareness to the co-operative difference, and engage or reengage members around the co-op's long-term vision and purpose. For Glenn Lower at Middlebury Co-op, the announcement of the refund was a chance to communicate with members about what was happening at the co-op and to generate excitement. Doug Johnson at Belfast Co-op highlighted the refund letter as a way to enhance his co-op's overall communication strategy around co-operative values and principles and to tie their business success back to the Co-operative Identity. At the same time, as Lexa Juhre at Fiddleheads Food Co-op pointed out, the refund helps to address those members who might be struggling to see "what's in it for me." Juhre called the patronage refund a way to "amplify the co-operative difference and make it tangible, both in the economic and associative sense" and emphasized that the refund is evidence that the co-op does not extract value from members through profit but rather co-creates value with and for members.

"Discounts to Dividends": A Competitive Advantage?

The co-operative advantage differentiates members' relationship with their co-op from their relationships with other businesses, particularly the co-op's direct, for-profit competitors. Especially in such a low-margin industry as retail grocery, an increasingly competitive market requires that food co-ops continuously demonstrate their *raison d'etre* via a superior value proposition to their members in order to retain their loyalty, i.e., their patronage (Tuominen et al., 2013). It appears that the patronage refund may be a powerful mechanism for accomplishing this and may enhance the emotional/experiential value for members, specifically in relation to another common practice at retail food co-ops, the member discount.

The co-operative difference is in part defined by long-term, relational (as opposed to short-term, transactional) interactions and the logic of *value-in-use* (as opposed to *value-in-exchange*) (Kowalkowski, 2011). When surpluses are returned to members in proportion to their patronage, members realize value according to *use* rather than from an anticipated return on capital as in an investor-owned corporation, and therefore have control over how much value they receive through their own consumption behavior (Talonen et al., 2015). If the model is working properly, the promise of a refund on purchases may entice new members to join and incentivize current members to prioritize the use of their co-op over shopping at a competitor. Furthermore, consumer members can determine the amount of economic value they contribute to their co-op by the amount that they actively shop there, supporting business success.

Fairbairn (2003) explored how this difference in value realization is demonstrated by using patronage refunds in conjunction with or in lieu of every-day price reduction strategies on products. Distributing patronage refunds allows members to understand the market price throughout the year and see the subsequent savings of co-operative trade at the end of the year once expenses are paid and a surplus is established. A sole emphasis on competitive pricing and discounted goods, on the other hand, can render the co-operative difference invisible and unmeasurable, as members will pay a similar price whether they shop at the co-op or at another store (Fairbairn, 2003).

Scholl et al. (2015) pointed out that discounts at the cash register (rather than rebates given annually) are a refund on purchases made before annual net income is realized and mean the co-op is distributing resources to members before it knows whether it will generate a surplus. They also suggested that trying to maintain a discount structure can exacerbate the common perception that co-ops are too expensive: "Members often have a hard time seeing how much benefit they accumulate through discounts, and shelf prices are often artificially inflated to make the discounts affordable, thereby weakening the co-op's price image" (Scholl et al., 2015, p. 5). Promotional sales and "member-only" deals can be an effective way to attract and retain members, but paying patronage refunds truly sets the co-op apart, reinforcing the dual role of the member as user *and* owner, rewarding member economic contribution proportionally to use *and* realized surplus, and establishing a mutually beneficial relationship unlike any the member will experience with a non-cooperative competitor (Scholl et al, 2015).

The "discounts versus dividends" debate was a major theme in all the general manager interviews, and while it seems to fall under the category of economic value, there is also an emotional and experiential component for the member. Both Bartlett and Lower used the phrase "discounts to dividends" as a tagline in their campaigns to switch from cash register member discounts to patronage refunds. Despite problems with the investor-oriented connotations of the term "dividend," this tagline worked well for both co-ops, generating understanding and enthusiastic, if not unanimous, support among their members.

Each GM believed that a structure involving everyday member discounts at point-of-purchase is not the best way to create significant or unique value for members or the co-op.[6] All these co-ops have switched from discounts to patronage refunds in the past 5-10 years, primarily because the discounts were turning out to be too expensive. In some cases, the co-op's point-of-purchase discount was so small (as low as 1%-2%) that it was barely noticeable to the customer, yet, in years when the co-op budgeted for or unexpectedly ended the year with a loss, the co-op had already given away discounts it couldn't afford.

Lower at Middlebury said his co-op needed to eliminate the register discount before they began an expansion project, because they believed they wouldn't be profitable for several years and would therefore be unable to afford member discounts. This was their catalyst for introducing the concept of the patronage refund to members, linking the success of the co-op's expansion project with long-term collective sustainability and benefit to individual members. Members expressed their appreciation and respect for the transparency of the transition process, which made them feel included and comfortable with the changes. Lower believes that issuing patronage refunds when the co-op succeeds increases feelings of loyalty among members and generates excitement about the co-op.

Aj Hess at Mariposa Food Co-op discussed how the savings realized by the co-op in switching from member discounts to patronage refunds allowed them to increase employee wages – something very important to their members – and hit their equity targets year over year, serving the co-op's social and financial goals. Hess also highlighted how many of Mariposa's members choose not to claim their refunds but let the co-op donate them to a charity of the co-op's choice, demonstrating how the member refund can be repurposed from an individual benefit to a social one. Bartlett at Lexington said that their discount structure cost the co-op too much and that members didn't find enough value in it; also, it tended to feed a sense of individual entitlement rather than shared responsibility and benefit among members. He indicated that the refund "hits [members] in a different place than the discount" and encourages them to take pride in contributing to something they are building together.

Both Bartlett and Johnson reflected that when co-ops focus too much on discounts, even the member discount as an immediate refund on patronage, they are encouraging the capitalist, for-profit mindset that emphasizes cheapness, and that this can distract members from the true shared individual and collective value that can be realized by doing business co-operatively.

Although co-ops have long used discounts as a way to provide an immediate refund on purchase price to members, other pricing strategies employed by food co-ops closely mimic those used by for-profit competitors. While this may be an effective marketing strategy, members may have difficulty seeing the difference between these product-level strategies, that are generally available to members and non-members alike, or loyalty rewards programs and dues-based membership models at big-box buying club stores, and the true co-operative benefit of the member discount at the cash register. Although shopping at a co-op these days can often feel like shopping at any other natural food market, Johnson believes that co-ops can reclaim some of the advantage of our alternative economic model by leveraging the patronage refund model to complement the popularity and power of discounts.

Education and Communication

The general managers interviewed emphasized the importance of member education and transparency in a transition to a patronage refund structure from a different model, e.g., member discounts. In most cases, these co-ops engaged in a months- to year-long process of information sessions and dialogues with members before asking for their support in making the change. Board members and the general manager were usually heavily involved in both the preparatory internal learning and the member communication, and several managers emphasized the importance of including employees in the process.

Both Bartlett and Johnson feel it is more honest and effective to frame the patronage refund as a principle embedded in the co-op model than as a financial member benefit. Hess emphasized the importance in member communication of continuously connecting the economic benefits of the surplus distribution structure with the co-op's goals as an employer and a member of the community. There was consensus that it's critical for members to understand that a refund is never guaranteed, that it is at the board's discretion, and that it symbolizes shared success, lest members come to expect a refund each year. Lauritsen suggested that using the patronage refund structure is not so much a promise of a cash rebate each year as a promise that the co-op will continue to be around to meet members' needs, in profitable and unprofitable years. All general managers emphasized that refunds to members based on their patronage is a very practical, authentic, and transparent way to engage with members and build trust, while truly putting the co-operative principles and values into action.

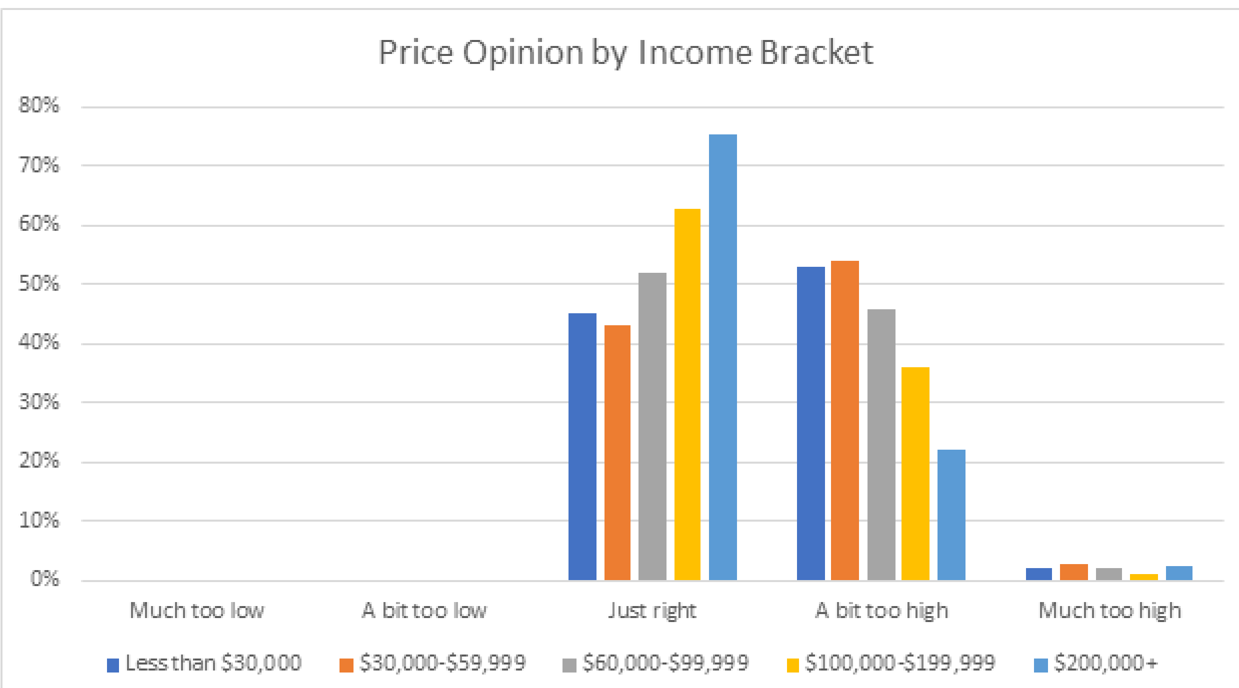
Data Analysis: WFC Member Survey

The member survey data were analyzed quantitatively and qualitatively to draw conclusions about how the member value proposition at WFC is currently operating. Themes and sub-themes relevant to the research questions were grouped into the following four broad categories: price and affordability, concern for community, communication, and love.

Price and Affordability

The member survey revealed a somewhat complex economic relationship between members and the Co-op that included emotional and social components. WFC members tend to be more affluent than the average local resident and reported that shopping at the Co-op is relatively affordable for them. Sixty-two percent of survey participants reported that their annual household incomes are $60,000 or higher, with 30% being $100,000 or higher. For comparison, the median household income in the Co-op's town of Windham, CT is $42,909 (U.S. Census Bureau, n.d.). When asked their opinion on the Co-op's prices, 52% of respondents said the Co-op's prices are "just right," with 45% saying the prices are "a bit too high." An inverse relationship can be seen between members' income level and their comfort with pricing; however, no one said that the prices are "much too low" or a "bit too low," and only 3% responded that the prices are "much too high" (see Figure 3). [7]

Figure 3: Price Opinion by Income Bracket



The survey also found that price is not the most important factor for members in deciding where they do their grocery shopping. Seventy-one percent of members disagreed or strongly disagreed that price is the most important factor, while only 29% agreed or strongly agreed (see Figure 4).

At first glance, this seems to indicate that members are generally comfortable with prices at the Co-op and/or are not highly price sensitive. However, it is notable that only 18% of respondents said they do more than 50% of their shopping at the Co-op, while 82% said they do 50% or less of their shopping at the Co-op. This suggests that there are non-economic factors influencing members' shopping decisions or that members' perception of the economic value of the Co-op is more nuanced than their responses about price imply (see Figure 5).

Figure 4: Importance of Price

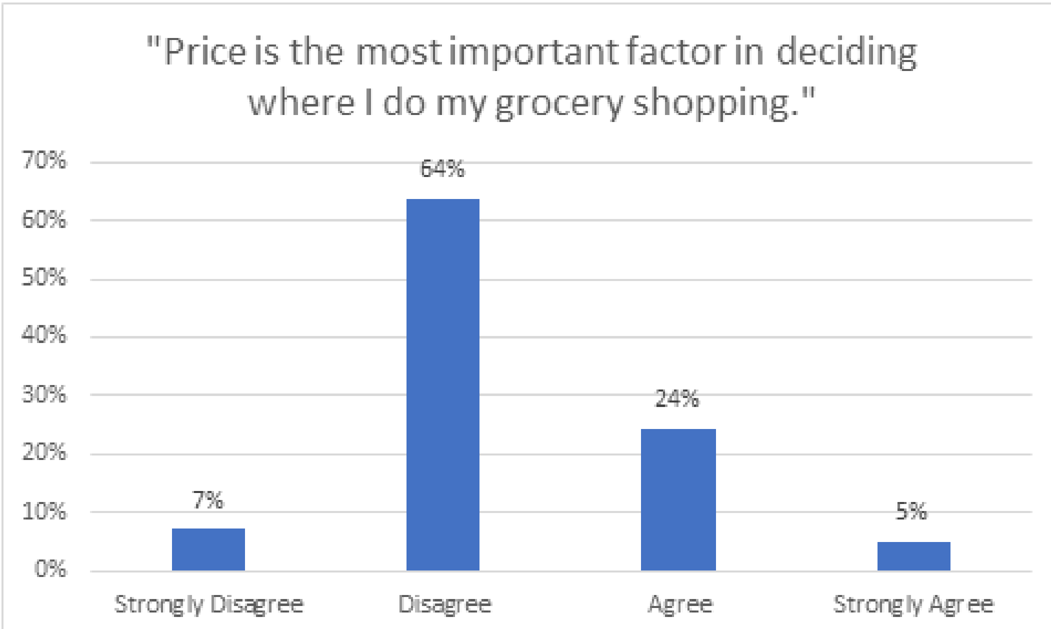
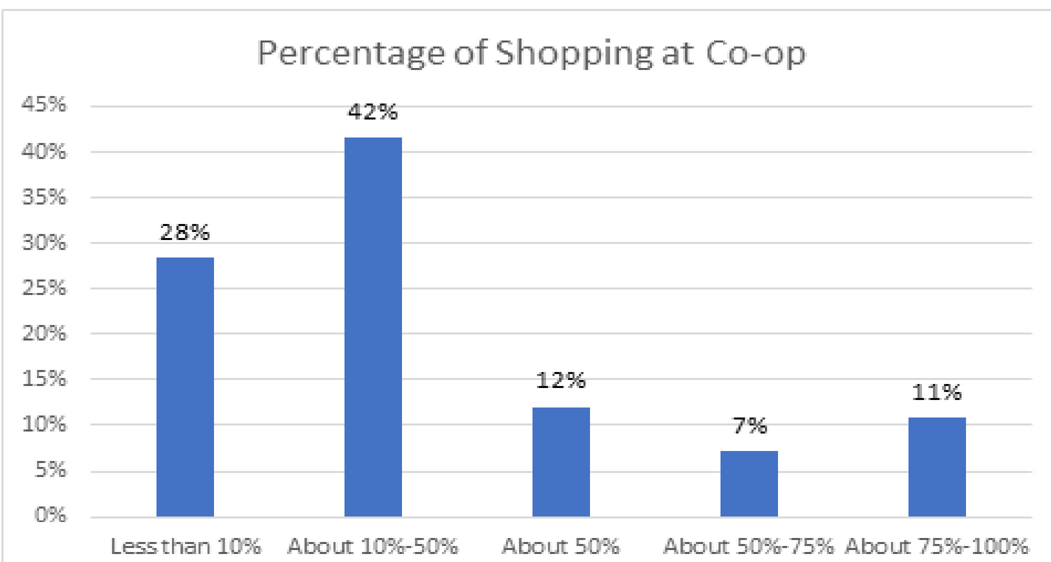


Figure 5: Percentage of Shopping Done by Members at WFC



There were 208 unique comments about prices that helped shed light on members' economic relationship with the Co-op and how they feel about it. While the quantitative data seemed to indicate a low level of price sensitivity, the commentary revealed that members fall along a spectrum in this respect, and they can be broadly categorized into two groups: those who are willing and able to pay premium prices to buy whatever they want at the Co-op, and those who are willing yet *unable* to do so. Keeping these categories in mind, the themes below around price and affordability were identified. They are described and illustrated by selected comments.

It is Worth It and Affordable

Members see the quality and selection of products available at the Co-op as superior to other stores, and they are willing and able to pay a premium for them. Members also view the social mission of the Co-op as important and as a justification for higher prices that they are happy to pay:

- *The prices are high but the reasons for that are real.*
- *I live by this when it comes to healthy food: "Pay now or pay later". So happy I can afford the prices.*
- *I'm willing to pay higher for good quality and to support coop mission.*

It is Worth it but Not Affordable

Many members expressed their desire to buy more at the Co-op because they value the products and the social mission but said they can only afford to shop there very selectively. Like the less-price-sensitive group, these members often expressed a philosophical alignment with the Co-op's purpose but said that their income did not allow them to shop as much or as often as they would like:

- *I love the co-op, but I cannot afford to do my regular grocery shopping there. I can only afford to come for specialty items that I cannot find elsewhere.*
- *While I firmly believe in the co-op's mission, the goods are so overpriced that I can only purchase very select items, and have to go to a separate store for the bulk of weekly groceries.*
- *I shop at the co-op whenever I can afford to. The prices are a bit higher but I appreciate the quality, the selection, and the community atmosphere.*

The Co-op Should Be More Affordable and Accessible for Everyone

Members from both groups believe the Co-op can and should be more affordable and accessible to all those who might want to shop there. There seems to be a general sentiment that the collective needs of the community are more important to members than receiving an individual financial benefit. There are varying opinions on how this could or should be accomplished (needs-based discounts, lower prices overall, lowering the cost of membership, increasing the financial benefits members receive, etc.), but general agreement that it should be done:

- *Share the wealth. Keep food quality high, Organic as much as possible, Fair Trade, and prices low enough that low income individuals can afford to shop.*
- *I am disabled and low-income. I would love a program that could help me be able to purchase some of the items I'd like to buy, but cannot afford. However, I feel strongly that I wouldn't want that to happen at the expense of others. If there is a way to find a balance between the two, that would be wonderful!"*
- *I am not crazy about points, partnerships, or refunds. I think that the coop should put profit toward helping others in the community that need discounts. I can afford what I purchase and would like my coop to help those in need.*

Community

As the previous section demonstrates, members of WFC highly value the Co-op's embodiment of the Seventh Co-operative Principle, "Concern for Community" (International Co-operative Alliance, 1995). While they clearly value the Co-op for meeting their individual needs, they also expressed a strong, sometimes passionate, support of non-member stakeholders, including local residents, employees, local producers and businesses, and the environment. They see the Co-op as an asset in the community and value their opportunity as individual consumers to contribute to strengthening it. This is evident in members' answers to three of the Likert-type rating questions about which aspects of the Co-op they find most important and valuable.

Members were asked to rate certain aspects of their Co-op membership on a six-point scale from "Do Not Value at All" to "Highly Value." The two elements receiving the most top ratings were "The Co-op as a locally-owned business that gives back to the community" and "The Co-op's efforts towards environmental sustainability and ethical consumerism"; 73% of respondents gave each of these two elements the top "6 – Highly Value" rating. The Co-op's "unique products and services" was the third most highly valued element. Other elements were given the top rating by significantly smaller percentages of respondents (see Figure 6).

Members were also asked to indicate how important each of the current member benefits are to them, on a six-point scale from "Not Important at All" to "Very Important." Seventy-one percent of respondents scored the "Existence of the Co-op as a community owned grocery store" with the highest rating of "6 - Very Important", whereas all the other member benefits were given this top rating by much smaller percentages (see Figure 7).

Figure 6: How Members Rate Aspects of Membership

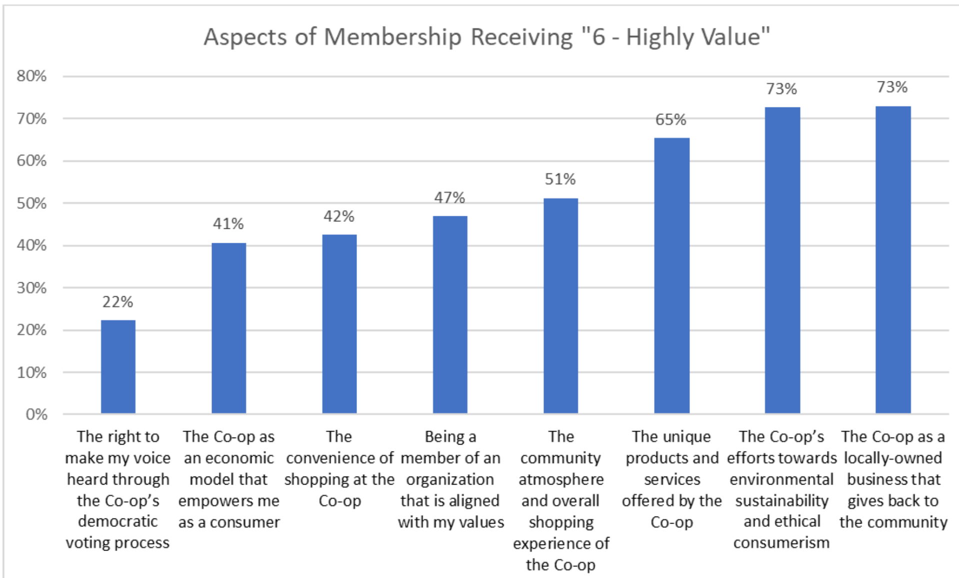
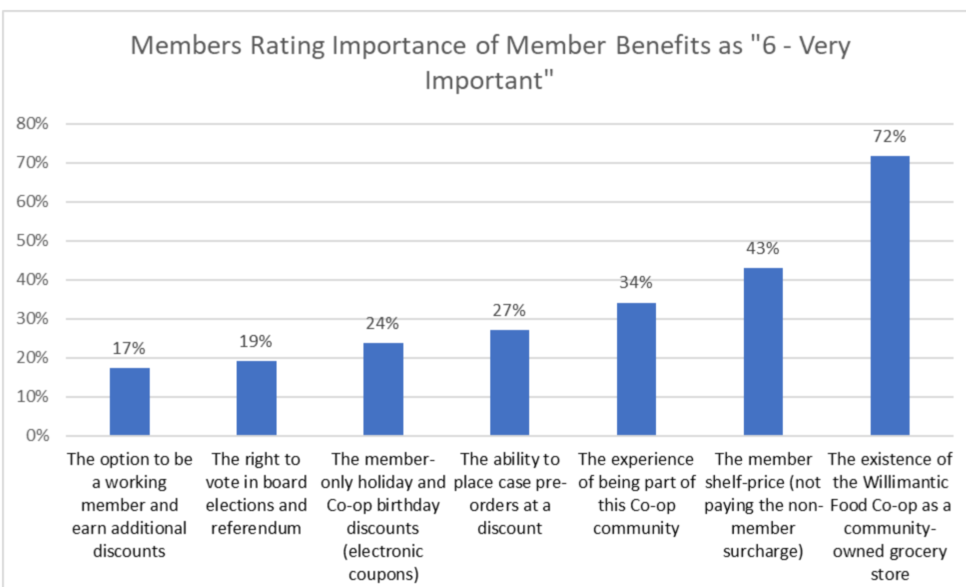
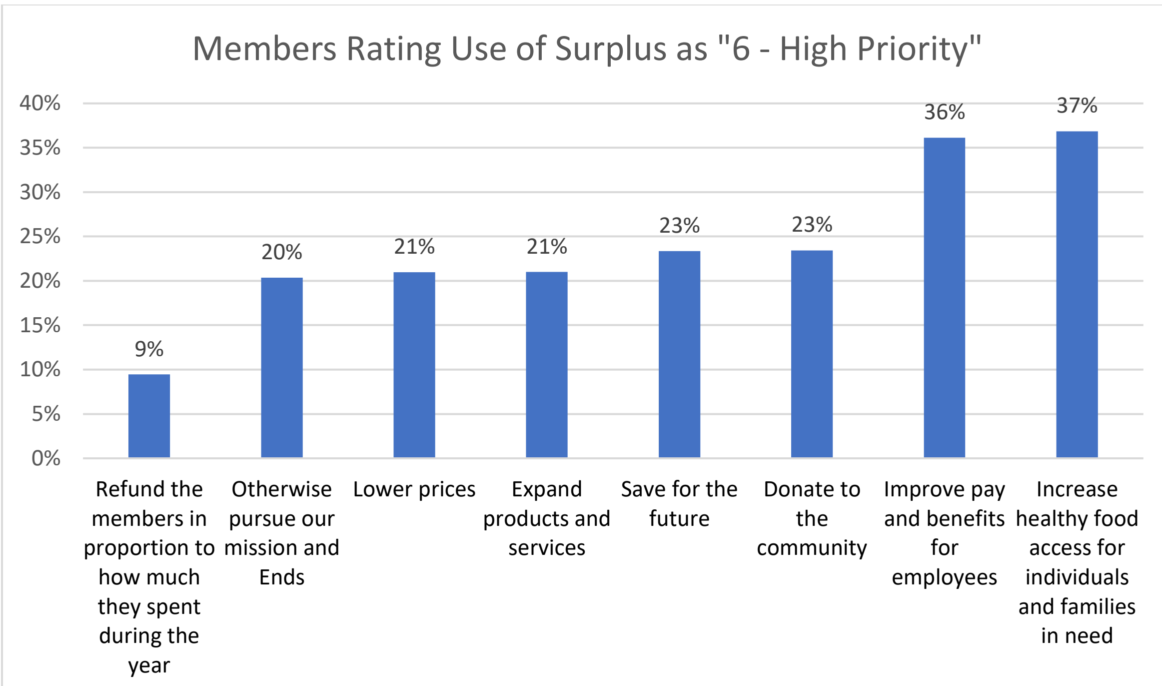


Figure 7: How Members Rate Importance of Member Benefits



The predominance of members' concern for community above other aspects of the Co-op was perhaps clearest in their answers to the question about how excess operating income should be used. "Improve pay and benefits for employees" and "Increase healthy food access for individuals and families in need" received the most top "6 – High Priority" ratings. This finding demonstrates members' social concerns and echoes the theme in the affordability section in which members expressed that the Co-op should make its products accessible to a broader range of people, especially those on restricted budgets. It's notable that "Donate to the community" did not score as well in this question. Perhaps the phrase was too vague in comparison with the others, or perhaps it reflects an intuitive alignment with the co-operative values of self-help and self-responsibility in relation to the community, as opposed to charity. Also notable is the relatively small number of members – only 9% - who rated patronage refunds as high priority (see Figure 8).

Figure 8: How Members Prioritize WFC's Use of Surplus



The commentary submitted by members, in relation to the above three questions and others, contains many passionate expressions that demonstrate how WFC members see community as a highly valuable aspect of the Co-op. While opinions were diverse and contradictory, several clear themes related to the value of community were identified from the analysis. These themes are listed below, along with a selection of illustrative participant quotes.

Local

Members value how the co-op supports "local." There were seventy-four unique comments using the word "local" and many others that refer to local stakeholders – the residents, businesses, and producers in the Co-op's geographic area:

- *Love the idea of partnership discounts, only because it involves other small businesses in the community - not really about the discount.*
- *Discounts and benefits are not as important to me as buying local, supporting small farms and businesses and working to build community.*
- *It is worth it to pay for local products and support our community with a fair wage.*

Helping the Co-op to Support the Community

Members believe that WFC should and does serve the needs of the community, and they understand that, by shopping at the Co-op, they are individually contributing to the collective effort:

- *I appreciate the opportunity to shop at the Co-op, where my dollar is going to make the local community a better and healthier place.*
- *I love the Co-op and I want it to flourish for a long, long time not just for myself and the members but for the community.*
- *I can't begin to express my appreciation for the benefits the Willimantic Co-op has afforded me personally and the community it serves.*

Members Value Co-op Employees

Members value their relationships with Co-op employees and recognize employees' role in WFC's success. They want the Co-op to support the staff and ensure their well-being, and they are willing to contribute financially to those efforts through their patronage:

- *I highly value the livelihoods [the Co-op] enables in the community.*
- *I believe increased benefits to workers should outweigh the board's decision when it comes to paying out dividends to members.*
- *I have boundless respect for everyone that chooses to work here, as their contribution is a major part of our success and who the coop is.*

Welcome More Members of the Community

Members think the Co-op could be more accessible and welcoming to more people in the community, through alternative paths to membership, lower prices, more inclusive practices, etc. This again relates back to the theme of wanting the Co-op to lower its prices to benefit less affluent members and prospective shoppers:

- *Always sad to me that most people in the community can't afford to shop at such a meaningful and healthy place.*
- *How can we reach the Hispanic community better--is there a line of products that they are seeking that the Co-op can offer?*
- *Make it more inviting to the community at large.*

Communication

The survey results showed that WFC members value effective communication to and from the Co-op. While no survey questions asked specifically about communication, the survey response rate and number of comments alone demonstrate that members appreciate hearing from the Co-op and are eager to share their views. Studies show that internal surveys (e.g., of employees) generate an average response rate of 30-40%, while external surveys (e.g., customers) average a 10-15% response rate (Survey Response Rates, n.d.). Co-op members could be considered a hybrid internal-external survey participant, as they are both customers and joint owners. The overall survey response rate for this member survey was 33%, and many of the 1,142 individual comments were thoughtful and extensive.

It is clear from the rich commentary that communication is important and members want more of it. For example, several members said that they were not aware of many of the core member benefits offered by the Co-op, such as discounts on case pre-orders or holiday discounts. Others expressed dissatisfaction with the availability of financial data and other governance and operational information about the Co-op, and that they would use this information to help them participate and make decisions. There were several comments asking for more product ingredient and sourcing information and sixty unique comments requesting more community outreach and educational opportunities for members, such as classes and lectures. Finally, several respondents asked for more frequent informational and promotional emails from the Co-op, while many expressed gratitude for the chance to provide feedback and requested more opportunities to do so:

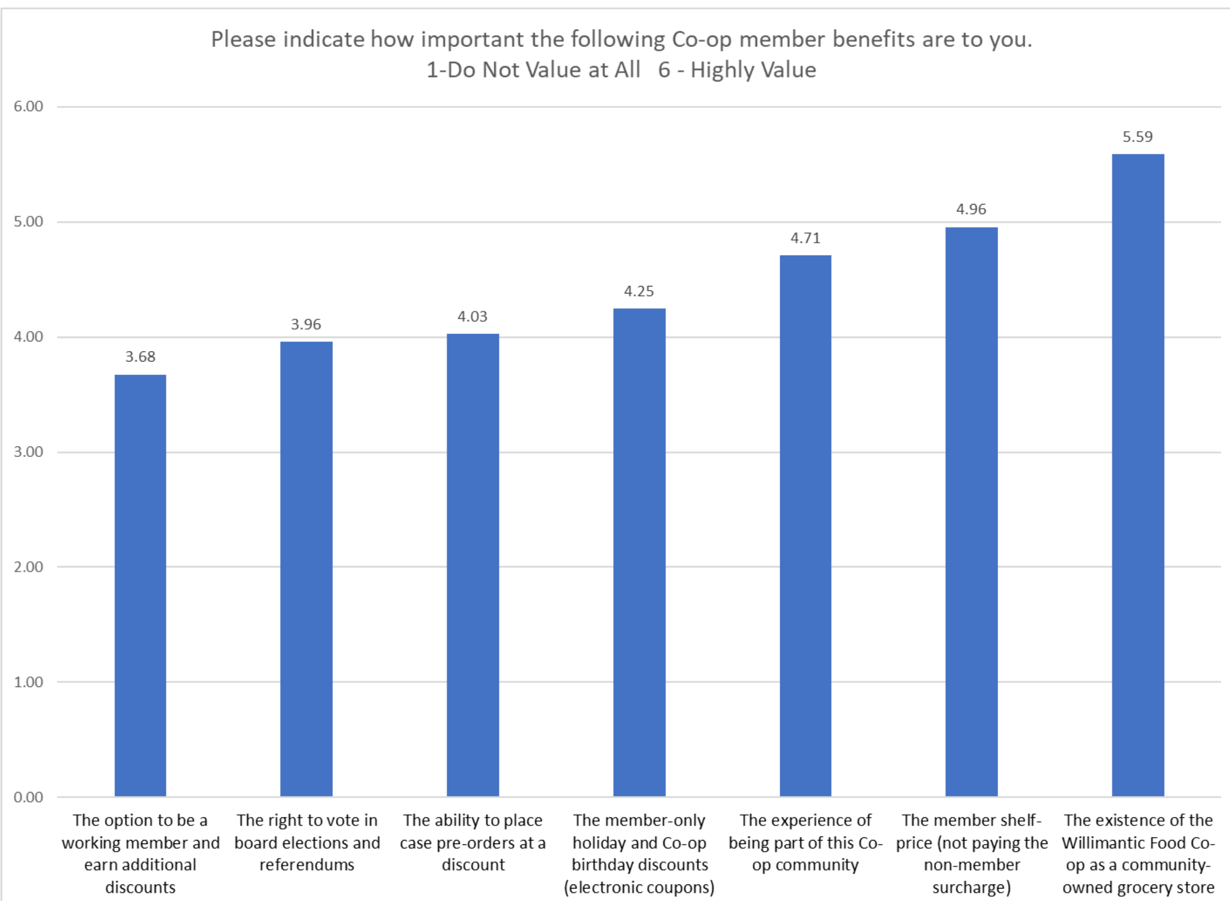
- *Thanks for this opportunity to tell you how important the Co-op is to me as well as to our community. Let's keep it happening!???*
- *I guess I'm not familiar with a lot of the benefits of being a member. It would be good to see a short version of the membership benefits and creed.*
- *Email announcements, events, sales on a more regular basis.*

Love

Perhaps the strongest message across the 1,142 comments in the survey was that members love the Willimantic Food Co-op. "Love" had the second highest number of coded segments, second only to "prices." The whole collection of comments ranged from unkind to constructively critical to ambivalent to impassioned and presented a wide swath of differing, sometimes contradictory, opinions about the Co-op's purpose and practices. Members were passionate about a broad range of things: local, organic, employees, vegetarianism, sustainably raised meat, the environment, saving money, food security, buying in bulk, the smell of the store, and so on. However, the resounding and unifying theme was love and gratitude for what the Co-op brings to individuals and the community.

As Scholl et al. (2015) simply state, "The most important benefit for the member is the existence of the co-op itself" (p. 5). WFC members appear to believe this, which is evident in both the quantitative and qualitative analysis of their survey responses. "The existence of the Willimantic Food Co-op as a community owned grocery store" was the highest scoring member benefit, when measured by the number of people giving it the highest rating (see Figure 7) and, even more strikingly, when measuring its mean score (Figure 9).

Figure 9: How WFC Members Rate the Importance of Member Benefits



There were 177 explicit expressions of love or gratitude among the member commentary, ranging from the general to the specific, and many more additional segments coded for "how it feels." Although there were a few comments expressing negative feelings, the overwhelming majority were positive. Here are few examples:

- *The Co-op is a very special place that I love being a member of!*
- *I love the Co-op and I want it to flourish for a long, long time not just for myself and the members but for the community.*
- *I love this place and want it to succeed. I want the coop to exist forever. Thank you to everyone there working hard!*

Talonen et al. (2015) described emotional/experiential customer value as a subjective interaction with products and services, pride, reflective of a deep and long-lasting mental state, and embedded in the act of consumption. They argued that "cooperatives may have certain inherent features that strengthen the emotional bond with customer-owners" (p. 149). The survey data suggested that WFC may have some of those features, and that members indeed have a very strong emotional bond to the Co-op.

Discussion and Implications for WFC

Discussion

This research shows that issuing patronage refunds in food co-ops is linked to business and member value along all four dimensions in the conceptual framework: economic, functional, emotional/experiential, and social/symbolic. Although the economic benefit of receiving a patronage-based refund from a food co-op may be relatively insignificant for most individual members today, declaring patronage refunds can be a powerful financial management tool for building member equity and long-term sustainability and independence for a consumer co-operative. This leads to increased collective benefit and embodies the Third Co-operative Principle, "Member Economic Participation" (International Co-operative Alliance, 1995). On the other hand, for core members who have extremely high levels of patronage, the distributed portion of the refund can represent a substantial individual return on their use of the co-op.

Meanwhile, announcing the patronage refund to members offers functional value as an opportunity to communicate with members, bringing awareness to their individual participation in the mutual goals and success of the co-op and creating transparency around the co-op's performance, for which members should be holding managers accountable. Using patronage refunds rather than, or in conjunction with, everyday member discounts can create functional value for members in at least two other ways. First, it supports the financial viability of the co-op, ensuring it will continue to stay in business and meet members' needs. Second, it empowers members to co-create value with the co-op through their own consumption choices.

The emotional/experiential value of patronage refunds to members is less clear from this research. It did not survey co-op members of surplus-distributing food co-ops, and therefore there is no data to show how members feel about receiving a refund. The general managers interviewed tended to believe members were happy to both receive a refund and to learn that it meant their co-op was experiencing success. There also seemed to be satisfaction and appreciation generated among members when co-ops engaged in an inclusive communication and educational process about patronage refunds, which implies that they may have experienced increased feelings of member loyalty and a sense of belonging, strengthening the all-important member-to-co-op linkage.

The social and symbolic value of patronage refunds showed up in a variety of ways in the research. Practitioner experience showed that the patronage refund often acts as a symbol of shared success: even when the individual refunds don't carry much economic value, it is a reminder to members that they are a part of something both larger than and *of* themselves. It is a way to reinforce an understanding of the difference between the "service at cost" nature of the co-operative business model and the profit maximization of investor-owned corporations. As Fiddleheads Food Co-op general manager Juhre said, the refund is evidence of the non-extractive nature of the co-op model and its unique purpose and priorities. It both *represents* and *is* a mechanism for the relational and user-based logic that differentiates how a co-operative enterprise interacts with its patrons, allowing the member value proposition to be co-creative. And, as in Mariposa's example, members who prioritize social benefit can choose to redirect their individual benefit toward a cause benefiting others.

This study did not spend much time exploring the possible risks and disadvantages of patronage refunds; however, Fairbairn (1994) noted that their use has possible drawbacks. For example, members can come to expect and rely on their annual payout, even when it is not in the co-op's best interest to distribute profits because of a need to reinvest them into the business. Fairbairn (1994) further indicated that prioritizing refunds at the expense of saving for the co-operative's future reveals the conflict between the short-term interest of individual members and the long-term collective interest of a thriving community institution, and observed that this problem has "bedeviled co-ops ever since Rochdale" (p. 16). This reinforces the importance of clear and consistent communication with members and focusing on the interdependent nature of co-operative success.

Implications for WFC

Based on the data, it's possible that introducing patronage refunds at WFC could positively impact member value for actively shopping members along all four dimensions. [8] Although the survey questions referring to patronage refunds drew mixed and lukewarm responses, this is likely because members do not fully understand how patronage refunds work or their potential to create value beyond an individual cash rebate. It may also reflect that members are comfortable with the current surcharge system and are hesitant to trade it for an unfamiliar and untried system. In either case, judging from the experiences at other food co-ops, engaging members in an inclusive and transparent process will be key to gaining their support. The Co-op can leverage data from the member survey to design an effective educational campaign.

WFC's members have a keen sense of their own economic privilege and how it grants them access to the products sold at the Co-op. Those who are not very price sensitive are concerned for those who are. Those who are price sensitive say they would shop more if prices were lower, because they believe in the Co-op's mission and values. Although most members appear to believe the prices are reasonable for what they get in exchange, there is a high level of consensus that the Co-op is simply too expensive for those on limited budgets. Although the higher prices may feel "worth it," members do value the "discounted" member price. This suggests that members understand and value any individual economic benefit they may receive from being a member but that they also value the functional and social benefits of making the Co-op and its high-quality food accessible to more people.

Despite the success at Middlebury and Lexington with the "discounts to dividends" tagline, WFC may want to consider that an "either or" approach to this question could set up a false dichotomy that could alienate members who do find symbolic or economic value in the member discount, particularly those who rely on discounts to make the co-op more affordable day-to-day or those who joined specifically to receive the discount.[9] Most co-ops in this study who distribute patronage refunds also use some form of member-only discounts in conjunction with their refund system.[10] Marilyn Scholl (personal communication, February 8, 2022) strongly supports using a combination of patronage refunds and immediate, tangible benefits, like member-only deals or member discount days, to remind members of the benefits of their unique patronage relationship with the co-op throughout the year (rather than just when they receive their annual refund), and as a way to entice new members to join. She argues that visible and immediate *individual* benefits can complement the *collective* benefit of the patronage refund and help offset the uncertain, deferred, and contingent nature of a refund of surplus by generating excitement and loyalty each time the member shops.

Members demonstrate deep appreciation for the Co-op's existence and a recognition of the individual member's role in the Co-op's collective efforts to meet the community's needs. The majority of members in the survey think the Co-op's financial success should be channeled into increasing accessibility to good food for more people, whether through lower shelf prices, lower-cost membership options, or a needs-based discount, while ensuring the continued financial viability of the business. In their concern for community, members included local stakeholders, such as producers and employees, advocating for higher wages and better benefits for those who contribute products and labor to the Co-op.

Members love the Co-op and enjoy the social and sensory delights of shopping there. They appreciate hearing from and being listened to by the Co-op and are looking for more ways to connect. The expressions of love and gratitude toward the Co-op indicate a strong loyalty and emotional bond, regardless of whether members fully recognize the unique elements of the co-operative business model as the source of that experiential value.

These findings suggest that patronage refunds have the potential to increase member value at WFC along economic, functional, emotional/experiential, and social/symbolic dimensions. WFC's members demonstrate a strong sense of interconnectedness between the individual and collective benefits provided by the Co-op and believe that the Co-op should continue to find ways to balance individual and mutual needs to further its social purpose. If members understood that a patronage refund system is a mechanism for ensuring long-term sustainability that can support the Co-op's social mission, they would likely support it, especially if they knew they could donate their refunds to those in need. For example, the Co-op could consider directing all unclaimed and donated dividends into a fund supporting a needs-based discount and subsidized memberships for lower-income shoppers (Neighboring Food Co-op Association, 2022). Additionally, members who are "less-price-sensitive" may recognize that even a small cash refund at the end of the year could be meaningful to members on the "more-price-sensitive" end of the spectrum. Overall, patronage refunds could incentivize more use of the Co-op by active members and may even attract lapsed members to renew their memberships and prospective members to join. Increased member patronage would bolster the WFC's financial strength and independence, thereby also supporting the Co-op's social goals, which are clearly important to members.

Members' concern for employees' well-being is another opportunity for the refund to build member value along social and economic lines. For example, the Co-op could show members how the tax savings from declared patronage refunds increases net earnings that could be directed into staff bonuses, raising wages, and improving benefits and working conditions for staff. Members highly value interacting with workers and seem to value their opinions and experiences, and therefore it would be important to ensure staff understand how using patronage refunds may create value for employees as well as for individual members and the Co-op as whole. An added benefit here (and a potential topic for future study) may be that employees see the patronage refund as an incentive to become members themselves, which further strengthens the alignment of multiple stakeholder interests in shared business success.

Lastly, educating members about patronage refunds and the associated benefits offers an opportunity to generate excitement among members and WFC's leaders about reincorporating as a "real" co-operative. The announcement of a patronage refund (or lack of one) is an opportunity for the Co-op to communicate with members about the importance and impact of doing business co-operatively in both profitable and unprofitable years, using the notification of a refund (or lack of one) to create transparency about shared success or the implications of financial loss. An annual communication of this kind could help satisfy members' desire for more information about the Co-op while enhancing the emotional bond by building trust through genuine accountability and incentivizing increased loyalty and patronage. There may even be potential for patronage refunds to build awareness and appreciation of the other Co-operative Principles that received lower scores in the survey, such as member democratic control.

WFC has a unique opportunity to build on what appears to be high levels of loyalty, engagement, and appreciation for Co-operative Principles among active members. The Co-op's leaders can use this opportunity to build "co-operative" capital by framing the patronage refund as a way to help ease the tensions of the individual/collective and economic/social dualities inherent in the co-operative business model that appear to be of great concern to WFC's members.

Conclusion

This research has provided insights into the theory and practice of patronage refunds as a fundamental mechanism to create operational and member value in consumer-based food co-ops and offered some preliminary implications for WFC leaders as they prepare to ask members to support reincorporation and updating its bylaws, including an option for the board to adopt patronage refunds.

Separating shared co-operative value into elements of business value and four dimensions of member value for research purposes allowed an exploration of the underlying motivations of WFC's members. However, the benefit of deconstructing co-operative value along these lines has its limits, as shared co-operative value is more than the sum of its parts and is realized best as a holistic proposition. Fairbairn (2003) advocated for a unified approach to realizing the true co-operative advantage:

> *Various distinctions of what is social and what is economic may offer adequate ways of getting by from day to day, but they provide an impoverished view of what co-ops can actually accomplish. The idea that objectives are "social" or "economic" … suggests trade-offs and dispersals of energy when synergies may be called for. There is a more integrated and helpful way of thinking about strategic direction in co-operatives: to pursue an integrated approach, in which social goals are accomplished through economic activities, and in which the membership of the co-operative is the place where social and economic functions come together. (p. 4)*

The members of the Willimantic Food Co-op seem to intuitively understand the potential of this unique co-operative difference already. The survey showed members recognize many of the practical and philosophical benefits of the co-operative business model and have an active interest in how to build upon what the Co-op has already accomplished. This provides an excellent starting point for WFC to pursue changes that can shine a light on the source of what makes it unique – its Co-operative Identity – and generate even more love and loyalty among members for generations to come.

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Notes

[1] A wide diversity of terms is used to discuss co-operative income and surplus distribution. In the interest of encouraging more clarity, the author of this paper has used terms, such as patronage refund and surplus, that are most closely aligned with co-operative practice and philosophy whenever possible.

[2] Patronage rebates are treated somewhat differently in worker- and producer-based co-operatives as they represent income rather than a refund of an overcharge.

[3] It could be argued that lower shelf prices and increased promotions have not done a lot to increase members' awareness of WFC as a co-operative.

[4] WFC reached out to the Neighboring Food Co-ops Association (NFCA), a regional secondary co-operative for help. NFCA led research and advocacy efforts and proposed amendments to make the co-operative a more viable and advantageous corporate structure for businesses operating according to Co-operative Principles (Neighboring Food Co-op Association, 2019).

[5] Comparison of the use of patronage refunds between different types of co-ops could be an interesting and valuable topic for further research.

[6] It would be interesting and valuable to know how the members of these co-ops feel about this question.

[7] WFC regularly performs price comparisons with other area grocery markets, and the Co-op's prices are generally competitive, mostly as a result of the relationship with NCG. However, the Co-op still suffers from a legacy "price image" problem from pre-NCG-membership days, in which some shoppers perceive that Co-op prices are higher than elsewhere even when they are not. Also, organic and local foods tend to carry a higher price point overall.

[8] WFC may want to also consider the opinions of members who were not surveyed because they haven't been actively shopping to discover whether adding patronage refunds could be a source of value that might bring them back to the Co-op.

[9] That is, to avoid the non-member surcharge, which WFC applies on non-member purchases rather than applying a cash register discount on member purchases. While the intended outcome of a surcharge is the same as, or similar to, that of a member discount, discussing its elimination may be more nuanced than discussing eliminating a discount – members may not feel as much as though they are losing something, whereas they may feel instead that non-members are gaining something. Based on the member survey data, members are likely to support such a change; however, it will require the Co-op to communicate very clearly.

[10] Sioux Falls Co-op in South Dakota uses a system that has been very successful for them and may be worth WFC's consideration. They guarantee a 1% rebate on member purchases at the end of the year, regardless of net income or surplus, rather than declaring a refund based on actual surplus. This system has, among others, the benefit of being easy to understand and explain to members, however, these rebates do not qualify as patronage refunds under the Internal Revenue Code.

Appendix: Willimantic Food Co-op Member Value Survey Questionnaire

Your Willimantic Food Co-op Member Experience

Please rate your level of agreement with the following statements:

Please choose the appropriate response for each item:

	Strongly Disagree	Disagree	Agree	Strongly Agree
Price is the most important factor in deciding where I do my grocery shopping.				
Members should receive an ongoing financial benefit for joining the Co-op.				
Members should only receive a financial benefit if the Co-op is profitable.				
I am familiar with the values and principles of the cooperative business model.				
Shopping at the Co-op empowers me as a consumer.				
The right to run for and to vote for the board of directors of the Co-op is an important member benefit to me.				
By being a member of the Co-op, I belong to a community that shares my values.				
I value being part of the Co-op community even when I personally disagree with the Co-op's decisions.				
I'm interested in participating in the activities of the Co-op beyond being a shopper (serving on committees, planning events, attending classes, etc.).				
I am a member of the Co-op because cooperative values are important to me.				

What do you value about the Co-op?

Please indicate how much you value the following aspects of your Co-op membership.

Please choose the appropriate response for each item:

	1 –Do Not Value At All	2	3	4	5	6 - Highly Value
The community atmosphere and overall shopping experience of the Co-op						
The Co-op's efforts towards environmental sustainability and ethical consumerism						
The Co-op as an economic model that empowers me as a consumer						
Being a member of an organization that is aligned with my values						
The unique products and services offered by the Co-op						
The right to make my voice heard through the Co-op's democratic voting process						
The convenience of shopping at the Co-op						
The Co-op as a locally-owned business that gives back to the community						

Comments:

Importance of Member Benefits

Please indicate how important the following Co-op member benefits are to you.

Please choose the appropriate response for each item:

	1 - Not Important At All	2	3	4	5	6 - Very Important
The member shelf-price (not paying the non-member surcharge)						
The existence of the Willimantic Food Co-op as a community-owned grocery store						
The ability to place case pre-orders at a discount						

The option to be a working member and earn additional discounts						
The experience of being part of this Co-op community						
The right to vote in board elections and referendums						
The member-only holiday and Co-op birthday discounts (electronic coupons)						

What other member benefits would you find exciting?

Please choose the appropriate response for each item:

	1 - Not Exciting At All	2	3	4	5	6 - Very Exciting
Member-only deals						
Member appreciation days (discounts, free samples, etc.)						
Opportunity to qualify for a needs-based discount						
A percentage of your total dollars spent at the Co-op, refunded to you in profitable years, at the discretion of the board						
Member-only points-based loyalty programs						
"Partnership" discounts at local businesses						

Comments about member benefits:

Income

After the financial needs of the Co-op are met, how should the Co-op prioritize the use of any excess income:

Please choose the appropriate response for each item:

	1 - Low Priority	2	3	4	5	6 - High Priority
Save for the future						
Reinvest in the operation, e.g. new equipment						
Expand products and services						
Lower prices						

Refund the members in proportion to how much they spent during the year						
Improve pay and benefits for employees						
Donate to the community						
Otherwise pursue our mission and ends						
Increase healthy food access for individuals and families in need						

Comments:

Prices

Overall, I think the Co-op's prices are:

Please choose the appropriate response for each item:

	Much too high	A bit too high	Just right	A bit too low	Much too low
Overall I think the Co-op's prices are:					

Comments:

Member Info

How long have you been a member of the Willimantic Food Co-op?

Choose one of the following answers
Please choose only one of the following:

- Less than 1 year
- 1-5 years
- 5-10 years
- 10-20 years
- 20+ years

What is your annual household income?

Choose one of the following answers
Please choose only one of the following:

- Less than $30,000
- $30,000-$59,999
- $60,000-$99,999
- $100,000-$199,999
- $200,000+

Please indicate your age range:

Choose one of the following answers
Please choose only one of the following:

- Under 21
- 21-29
- 30-45
- 46-59
- 60+

How much of your grocery shopping do you do at the Co-op?

Choose one of the following answers
Please choose only one of the following:

- Less than 10%
- About 10%-50%
- About 50%
- About 50%-75%
- About 75%-100%

Additional Comments

What additional product(s), service(s) or benefit(s) could the Co-op offer to provide more value to you, your family, and/or the community?

Please share any additional comments here:

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BOOK REVIEW AND REFLECTIONS ON CO-OPERATIVES AND PEACE by Peter Davis

Series on Co-operatives and Peace: Volume One: Joy Emmanuel and Ian MacPherson (Eds.). (2007). *Co-operatives and the Pursuit of Peace.* Victoria, BC: New Rochdale Press. Volume Two: Ian MacPherson and Yehudah Paz. (2015). *Concern for Community: The Relevance of Co-operatives to Peace*. Joy Emmanuel (Ed.). Turning Times Research and Consulting.

Introduction

Why review two volumes published respectively 16 years and 8 years ago, the first of which was the subject of an extensive and sympathetic review by Prof Mary Mellor (2008) in the *Journal of the Society for Co-operative Studies*? The answer is because Prof Mellor's conclusions, so it appears to the present reviewer, have been largely ignored. She said, "This is an interesting and thought-provoking collection of papers that deserves to be widely read and the case made for the role of co-operatives in promoting peace and resolving conflict is a convincing one" (Mellor, 2008, p. 52). The evidence that this conclusion has been ignored is the lack of co-operative peace building activities and lack of policies on peace initiatives in conflict zones.

Prof Mellor's review of the case material is thorough although the author of this review thinks her criticism of the Co-operative Women's Guilds Pacifist stance is a little misguided. In the aftermath of the carnage of the 1st World War these co-operators and mothers could hardly be blamed for their pacifism. How many of these activist women co-operators lost sons, brothers, boyfriends, fiancés, and husbands in that conflict, not for freedom but for empire? At the end of the conflict there followed a xenophobic demand for crippling reparations on Germany. These reparations led not to a social democracy in Germany but to chaos and ultimately Fascism and to yet another war. For the victors too their 'success' was short lived and after 1926 their people became the victims of recession. Today those post war 1930s soup kitchens have morphed into food banks in the UK whilst inflation rages as the country fights America's proxy war in Ukraine.

Thus, a second reason for a review of these two important volumes is that the UK and NATO partners are again at war in all but name. The fact that it's not NATO's populations doing the fighting and dying and not its cities being destroyed, for now at least, should be of less concern than the enabling of a conflict that might have been avoided with a policy that put reaching a compromise agreement ahead of just issuing threats (Davis, 2022a). It should be dawning on even the most right-wing hawks that this is not a war that will end anytime soon unless the West tries to bring it to an end by facing up to some of the more legitimate concerns the Russians have and opening negotiations without prior conditions. For *all* of Europe, including Ukraine and Russia, this is an essential and urgent task.

To see why we in the co-operative movement should be taking the lead, we need look no further than the behaviour of western politicians. Biden's grandstanding in Warsaw did nothing but raise the temperature and was aimed more at his bid for re-election. The centre right is in power today right across Europe and, indeed. in some places their main challenge is coming from the extreme right where people feed on fear, misinformation and xenophobia, all of which war facilitates. Today the issue of whipped up xenophobia and fear are complicated by the availability of a manipulated social media. The dangers of the negative impact of technology were touched on by Mervyn Wilson in his introduction to Volume 2 of Co-operatives and Peace. Is it just chance that the Marcos are back in power in the Philippines, Modi in India, Netanyahu in Israel, the Fascists back in power in Italy and coming in second during the French presidential elections, and of course Zelensky, whose ambition gave Putin a pretext to invade for a second time, in the Ukraine? There are many further examples across the globe, starting with the for now defeated Trump (USA) and Bolsonaro (Brazil). What lies behind the swing to the populist right are the hate speeches, conspiracy theories, misinformation, manipulation, the collapse of privacy, and the commodification and sale of human behaviour in a *privatised social media* and the Deep and Dark Web. The web-based buying and selling of our data with no transparency or accountability is where the populists and fear mongers gain influence without ever being recognised. So far, the Co-operative institutional frameworks have failed to come up with any co-ordinated response to this global threat to peace and co-operation which is functioning at many levels in all cultures and societies.

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The third reason for this review, is that our Co-operative agenda is being threatened by war and the covert manipulation of opinion. We in the co-operative movement stand for a free just civil society informed by education, searching for truth grounded in realism. War and other civil strife generally undermine the realisation of such possibilities. The message of the two volumes being reviewed is that although co-operatives operate in widely different political and economic contexts and segments, our shared values enable us to continue dialogue across political, economic, and cultural divisions. This claim is very clearly articulated in the contributions by Ian MacPherson in his opening chapter and, in chapter 2, by the English historian Rita Rhodes, and reinforced by the late Yehuda Paz and Raffi Goldman in their later and concluding chapters. Co-operatives can operate for peace at many levels from the global level (ICA) to state level and right down to relations and hostilities at the level of civil society. The message from both these volumes is that such a multi-level approach to growing peaceful relationships is precisely where the co-operative movement has a unique role to play. The reviewer wants to add: *but only where there is a co-ordinated effort* in which all co-operatives see prioritising peace as key to achieving their primary role of the sustainable economic development of their members and their communities - a key point Yehuda Paz makes again and again (see for example his comments on p. 330 in Volume 1).

The two volumes' scope and remit

These volumes' *raison d'être* (Volume 1, pp. 13-14) demonstrates a very wide remit aiming to illustrate the positive role played by co-operatives and co-operators contributing to peace in those, '…communities and societies where excessive competition and conflicts have emerged - in any of its deleterious forms'. (Volume 1, pp. 13-14)

Prof Mellor's review covers quite fully Rita Rhodes important chapter and also the contributions by Chushichi Tsuzuki and Akiro Kurimoto from Japan and Milford Bateman on co-operative peace-making initiatives in the former Yugoslavia. The work of co-operatives in Brazil, West Africa and Togo provides further examples in Professor Mellor's review of what can be achieved. Prof Mellor also considers the chapter by Lota Bertulfo, reminding us that violence is not just interstate or intercommunal either. Bertulfo's chapter notes the work on domestic violence by credit unions in Malaysia and women only co-operatives in the Philippines. So please refer to Prof Mellor's review for a commentary on these important contributions. This review focuses elsewhere on the contribution of co-operatives *and with a greater emphasis on those contributions calling for more to be done*. It will also look at the impact of conflict on Indigenous peoples in the two contributions by Robby Tulus. It will identify the key points in the closing challenging chapters by Yehudah Paz and Rafi Goldman.

There are many examples covering a very wide range of papers looking at the co-operative role during local conflicts in Asia, Latin America and Africa which the author could have drawn upon for this review and commends to the reader. Roby Tulus in his case studies from Sri Lanka, Bangladesh and Indonesia has given a glimpse of the interface between climate catastrophes, post-colonial legacies, poor governance, the greed of political elites, and conflict over natural resource extraction. These factors create separatist movements and a central government response of regional militarization with devastating consequences for Indigenous peoples caught up between insurgent and government forces. Wars prevent infrastructure, adding to the poverty and hardship endured by local communities as the wars in Syria and Afghanistan have recently demonstrated. Today, as the rainforests shrink further still and the ice caps melt, the plight of Indigenous peoples has deteriorated. Robby Tulus also mentions the negative impact of 'brainwashing propaganda' a feature of modern society that technology has greatly amplified.

Although some conflicts have been resolved others are flaring up with the Arab-Israeli conflict threatening to go to a new level as the two-state solution appears even to some of its advocates to be dead. Raffi Goldman points to farmers' co-operatives on both sides of the Palestine-Israel conflict so it really does put to the test the idea that co-operation can reach out across conflicting parties. He points to how cross conflict attempts to collaborate with projects such as *Co-operative Produce for Peace* are being tested by the rise of extremist rhetoric and actions on both sides. The problem with co-operative initiatives for peace is one of scale. Goldman concludes his chapter thus:

> *We need to ensure the mobilization of international co-operative resources and co-operative agencies on behalf of practical efforts of conflict resolution. If we do so, we may be able to improve our co-operative contribution to the pursuit of peace. (Vol. 1, p. 340)*

The danger of emphasizing democracy while ignoring leadership is a mistake that many in the Co-operative intelligentsia seem prone to make. Such an emphasis flies in the face of co-operative history littered as it is with leaders of great vision, courage, compassion and in *some* cases humility. Both the first and second volumes of the Cooperatives and Peace series demonstrate local co-operative initiatives led by courageous local leaders that make a difference in specific communities. *But we should not really see all these partial fragmented and isolated cases as a single movement just because they are all using similar means – Co-operation.* In terms of the billion plus members the ICA has in formal membership these initiatives represent a drop in the ocean and leave the major centres of co-operative membership, investment capital and social, cultural and economic potential fragmented and largely disconnected at the global level. In short, the movement as a whole has for many years remained unengaged with peace and development as a global co-operative strategy.

The globalised and monopolised culture and media, supporting the mantra of freedom while denying its basis for being realised, is the principal force manipulating the very people co-operatives are meant to be engaging with. It's not that the co-operative solution should not act in building local and resilient communities but that to get the critical mass to challenge the current authoritarian and libertarian models of capitalism such local initiatives require what Raffi Goldman called for: an international strategy and resource support - in short, investment in cultural and political messaging and development capital. For Co-operation to become a movement for peace and development, it needs to look outside its own ranks for allies from NGOs and from within the ethical investment community as well as from the big co-operative sectors in Agribusiness and Financial Services (Davis, 2022b). Indeed, this is the very point upon which the late Yehudah Paz closes the first volume when he states, "…if development is not an integral part of conflict resolution, then you not only lose the development, you probably lose the peace as well" (p. 370).

It's the people at the economic margins left to rot by libertarian capitalism that are most prey to xenophobic rhetoric electing the very people who will ensure their continued marginalisation and enlistment into the ranks of violent sectarianism and war. If the co-operative movement does not provide a development path for these people, we shall not win peace or social democracy.

The question is why?

Volume 2 opens with many well-deserved tributes to both Ian MacPherson and Yehuda Paz. The author knew and respected both men and shared the same platform with Ian at a number of ICA seminars over the years. The author was the keynote speaker at the Co-operative Bankers Association in Manchester in 1995 and took the opportunity to criticise The Co-operative Identity Statement adopted at that ICA Congress. It is not that I disagree with what it states but felt then and still do feel that without a principle of Co-operative Value Based Management stating the values and roles of managers in co-operatives the inevitable civil service cultural divide between elected and appointed leadership, given managements privileged prior access to organisational data and day to day control, would dilute member engagement and undermine co-operative social purpose. Ironically this managerial emphasis on economics, so I believe, actually undermines the business and commercial competitiveness that co-operation, potentially at least, can establish. Ian and I became friends over the years but the issue remained one of cordial but unresolved debate between us. Yehuda's somewhat more explosive personality however meant that the first time we met at an ICA HRD seminar in West Africa where I criticized the HRD Committee for not having Co-operative Management Development as an item led to what, using the language of diplomacy, I shall call a 'full and frank' exchange of views between Yehuda and myself. Notwithstanding this rather unpromising first encounter, I was shortly afterwards appointed as a Special Advisor to the ICA Global HRD Committee chaired by Yehuda and went on to work with him and Rafi Goldman and Vivian Silver and Ilana and many others on a series of management development programmes at the Centre of Strategies for Peace and Development at Beth Sheba, Israel.

In MacPherson's opening chapter in Volume 2, 'The Claims of Co-operative Thought' (pp. 21-28), he makes a characteristic claim for the potential of co-operative ideas to transform conflict with an equally comprehensive review of the post-Soviet new world order and its emerging challenges, including the decline in Social Democracy, the rise of libertarian free market economics, the IMF and World Bank Structural Adjustment programmes encouraging globalisation, and extensive cross border migrations of people. He put it thus, "If peace meant the fostering of harmonious relationships – a better understanding than just the avoidance of war – then the record associated with the major changes globalization brought to our times was definitely mixed" (p. 24).

MacPherson insists co-operatives should not be tools for others and should be free from restrictions on what their members would want them to do. But there is one potential flaw in this argument for democracy and autonomy that his review of the results of liberalization and globalization overlooked. It's the point made by Mervyn Wilson in his introduction and one that is all the more amplified in our experience in the years since Volume 2's publication. Mervyn Wilson wrote:

> *The advances in technology seen in the last fifty years have created a globally interconnected society. But those very advances in technology can also exacerbate issues of exclusion fermenting intolerance that can all too easily create a climate where sectarian violence can emerge. (p. 3)*

How safe are democratic processes today where the elector's behaviour has become commodified and profiled for targeted manipulation and misinformation? MacPherson recognised the fragility of co-operatives in the context of conflict, picking up the development point Yehuda made in Volume 1, and raised a critical question if we are to produce an answer to the threat posed by the digital revolution and raise awareness of the transformational role a united co-operative development strategy could make towards greater justice and peace globally. Ian asked, "Do they (co-operatives) have the special kinds of leadership needed to make what they wish to create possible?" (p. 22).

Both Volumes 1 and 2 carry excellent case studies with examples of just that special kind of leadership in evidence. But there is no systematic discussion in these volumes or in the wider movement about how to define or profile such co-operative leaders or how to attract, recruit and select and develop potential *co-operative value based* senior management and other professional roles for co-operatives. This is the issue the author has devoted a large part of his own writing and research to exploring. His ideas (Davis, 1995, 1999, 2004, 2013 and 2018) have largely remained unattractive to and thus ignored by the mainstream in co-operative human resources development (HRD), governance and organisational behaviour writing. For any reader who may be interested, he explores why in a paper in this issue of the International Journal of Co-operative Accounting & Management (p. 65).

MacPherson's historical chapters on co-operation and peace represent one of the high points in Volume 2, in Section Three: *What the Past Suggests* (pp 67 – 146). These chapters are gems of historical analysis, stopping, regrettably in the author's view, with the 1930s. However, there is a gap in that MacPherson did not really account for why the co-operative movement did not put up a more robust case either against the war in 1914 or for reconciliation rather than reparations at the end of the War in 1918? He documented the well-intentioned resolution passed at the ICA conference in Scotland in 1913 (p. 113) which failed to rally opinion sufficiently to stop the slaughter in Britain or in the countries of Europe. The point today in 2023 surely is to accept that the movement has failed to deliver peace or economic justice in the world two hundred years after its early attempts at formation. We are so sure of our moral superiority that we fail to recognise that not only are these values not shared by many but that they are not always trusted by those we seek to support - the working people themselves. These two volumes rightly celebrate co-operation's achievements and relevance but remain silent and refuse to reflect upon our failure.

Ian Macpherson's role was pivotal in making the current statement of Co-operative Principles such an advance on the previous minimalist statement. But we should not overlook the vulnerability contained within it for distortion and manipulation of its democratic processes that can occur without value-based leadership, Nor should we ignore the threat that manipulative social media messaging and misinformation can pose by enabling the removal of such leaders where they do exist. In celebrating our principles as the two volumes do, let us not overlook their vulnerability.

Open and Voluntary Membership requires a civil society with openness where non-conformity is accepted, but often civil society contains sectarianism which can be hard to break down.

Democratic Control by Members including the principle of one member one vote in primary societies, is often presented as one of the key advantages of the co-operative ownership model. But this democratic principle is not so highly valued amongst the membership themselves, as low engagement figures demonstrate, as it is for co-operation's advocates. Will Watkins was a notable exception who placed unity as more important for co-operatives than democracy (Watkins, 1990, p. 17). Co-operative Democracy often results in unrepresentative boards and disengaged members.

Member Economic Participation is based upon equitable member contribution and participation as the basis for distribution of surplus meeting local needs first. In fact, this principle has been very destructive, encouraging members to adopt short term and instrumental approaches to co-operatives often denying their co-operative the capital it needs to develop and provide greater services to the very communities the co-operative should serve. How much stronger and well developed would our movement have become had we continued with the principle adopted in 1832 at the London Congress that none of the surplus should be divided but reinvested?

Autonomy and Independence is fundamental for self-help associations to avoid the distortion, manipulation, and control by government and other powerful institutions. But of course, this principle has been breached not only during the communist periods but across many polities where there have been inadequate legislation, deliberate attempts by elites to restrict co-operatives to the low value-added end of the value stream, and of course the use of co-operatives to place political supporters and distribute political pay offs. These events have occurred across a wide range of continents and cultures.

Co-operative Education Training and Information is a critical idea that has been reduced in practice to board of director training, governance, dispute resolution and diversity and gender awareness training. In fact, co-operative education has in general failed miserably to inform members of their economic, political, technological, ecological and climatic contexts. The real threat to co-operative values posed by the culture of capitalism is often ignored entirely. During the author's time as a special adviser to the ICA Global HRD committee there was never any money to do anything, which rather summed up the movement's real commitment to education and development.

Co-operation among Co-operatives is vital but our structure in discrete silos makes it hard to achieve in practice and even within silos there is often less than wholehearted concern to co-operate, with parochialism amongst co-operative leadership often trumping the advantages of co-operation and integration.

The introduction for **Concern for Community** suggests co-operatives are about more than meeting the economic needs of their members but that they address the social needs found in communities. It's actually in community development in terms of community solidarity, identity and well being that co-operation between co-operatives could have a most immediate impact by providing the educational and cultural facilities to support peaceful and just community development. Today, the urgency of the climate crisis suggests co-operation between co-operatives at the community level is essential in order to educate for resilience in the face of the extreme weather events that are increasingly occurring, and the by now virtually unstoppable breach of the 1.5% increase in global temperature.

The author's point here is that it's all very well praising the principles as the introduction to Volume 1 (pp. 4-5) does, but we are only fooling ourselves if we do not go beyond the principles to explore the context they operate in and recognise the challenges their application faces in a global, polarised, and manipulated world — a world where the very ecosystems humans have relied upon are becoming subject to rapid life-threatening deterioration. It's not our principles that are wrong but the failure of our leadership and co-operative activists to implement our principles. This has resulted in a feeble response by the co-operative movement to those forces that profit from war and sectarianism and which have used technology not to enable wealth redistribution but to promote greater polarization and the concentrations of wealth while one person is dying every four seconds from a poverty related illness.

It's easy to blame members' apathy and ignorance and often misplaced avarice but they live and work amongst the most intense barrage of cultural messaging (brain washing to use Robby Tulus's term) that people have ever been subjected to. This messaging is totally contrary to the truth and celebrates all the values and attitudes that undermine our own. As co-operative leaders, managers, educators and researchers we bear the responsibility for not setting the right co-operative agenda, not establishing the right co-operative strategy, and having no plan to implement and communicate and engage the mobilisation of our over 1 billion members to action. Actually, even getting 10% of them would be a good start in raising more general awareness and building alternative economic models and a genuine peace movement across nations. We need a Co-operative Messaging and Cultural output identifying the real causes of war and sectarian strife that are inflicting such awful pain and misery around the world. There is real urgency today as we are being pushed into war in Europe and the Pacific by a United States political elite trying to maintain its hegemony abroad and a libertarian capitalist system at home, and willing to condemn in public and support in private the very right-wing extremism that lies behind so many acts of terrorism and the murders of human rights and climate activists around the world.

> *Right-wing extremists are increasingly traveling overseas to meet and exchange views with likeminded individuals. In the spring of 2018, for example, several members of the Rise Above Movement (or RAM)—Robert Rundo, Ben Daley, and Michael Miselis—travelled to Germany, Ukraine, and Italy to celebrate Adolf Hitler's birthday and to meet with members of European white supremacist groups. . . .In Ukraine, RAM members met with groups like the Azov Battalion, a paramilitary unit of the Ukrainian National Guard, which the FBI says is associated with neo-Nazi ideology. The Azov Battalion also is believed to be training and radicalizing white supremacist organizations based in the United States. These foreign connections provide U.S. based groups with an opportunity to improve their tactics, develop better counter-intelligence techniques, harden their extremist views, and broaden their global networks. (Jones, 2018)*

NATO countries need to accept that Russia too has legitimate security concerns. The last invasion of Russia came across the Ukrainian heartlands and received considerable support from a large pro-NAZI movement amongst the population. That invasion cost 27 million Russian lives. Instead of encouraging Ukraine to believe it could be a NATO member, the West should have been negotiating its neutrality with Russia and assuring Russia it would not seek to bring NATO forces up to its borders. The myth that Russia is a threat to Eastern Europe is obvious once it is recalled that it was Russia that unilaterally withdrew in the first place. NATO did not need to roll forward after Russia withdrew. It would have been far better rather to negotiate a peace treaty guaranteeing Central European security and neutrality. It was also America during the Obama Presidency who first introduced tactical nuclear weapons into Europe. Considering the figures below, it might be legitimate to ask the question as to who is threatening whom?

Only NATO's four biggest economies are represented here, but it is important to remember all the other members also contribute to NATO's 'defence' capability.

United States	US$857.9 billion
United Kingdom	US$68.4 billion
Germany	US$56 billion
France	US$56.6 billion
Total	**US$1,039.5 billion**
Russia	US$65.9 billion
China	US$293 billion

Source: Stockholm International Peace Research Institute (2021)

Assuming the USA only contributes 10% of its budget for war and ignoring all other NATO members, NATO, on this very conservative estimate, outspends Russia by about $5 to $1. The question is, where was and is the co-operative movement while all this has happened and opportunities for peace and an end to the cold war were being frittered away.

In addressing the urgent need for peaceful resolution of differences at the international level, the co-operative movement needs to recognise the political potential for division that the current narratives of inclusivity and the right to choose identities are generating. Conflict resolution cannot ignore Identity Politics, individual rights, and the multiculturalism which informs the contemporary liberal narrative. As Yehuda Paz points out, "Of course, any programme of co-operation must take into account the legitimate concern of those involved for the preservation of their identity."

These concerns have been an important fuel for the rise of extreme right-wing activism and increasing electoral success in Europe which, as raised early on in this review article, are in large degree a response in the face of large-scale inward migration. The Brexit vote in the UK is one of the most important examples - itself a serious blow struck against Social Democracy in Europe. The left has ignored this concern for identity which, as in the Arab-Israeli conflict, is very much tied up with the idea of territory. Have nations a moral right to say no to inward migration? In the author's view the answer is yes. In the end open doors are no answer to global instability - it simply adds to it. International co-operation must reach out with peace and development initiatives that address the horrendous human rights and economic deprivations that afflict such a wide vista of human experience.

These two volumes are an inspiring starting point that shows what has been done in very difficult circumstances across a comprehensive range of different human societies, economies, geographies and cultures. The author recommends them to readers. The lessons they provide are also a real challenge to Co-operative Leaders across the movement to raise their game. In these grave times, the currently unfolding conflict in Europe and impending global conflict in the Pacific both distract attention from the coming global catastrophe of climate change. Climate change is already impacting the need for increased migration. The ICA have two options: Carry on as they are and be overwhelmed *or listen to Raffi Goldberg's call to build an international strategy for peace and development*. There are signs that this is beginning to happen at the level of conference agendas. But this cannot happen just on paper as MacPherson's documenting of the 1913 conference resolution shows. We don't need feel good resolutions we need leadership and commitment from all sections of Co-operative Enterprise building alliances with other progressive forces to demand an end to demonisation and the beginning of dialogue. The resolutions passed today must be transferred into the hearts and minds of co-operative, credit union and trade union management and membership with a clearly articulated programme of actions within their communities to influence and rally civil society in general.

A cease fire in Ukraine and the beginning of negotiations is the first priority. This needs to be followed by clear development goals for Ukraine and Russia *vis a vis* co-operation with the EU and a de-escalation of the arms race in Europe starting by NATO withdrawing tactical nuclear weapons and Russia not deploying them outside its own territory. Mobilising co-operative membership for peace and development requires a cultural and communication strategy and infrastructure to deliver it that can counter the brainwashing impact of a social media, culture industry and IT ecosystem controlled by our enemies. Aristotle's response to the sophists and sceptics of his day was that human understanding of nature was unproblematic as humans are a part of nature. This is the reality that needs to be at the heart of our co-operative communications strategy for peace and development aiming to turn deserts into gardens and swords into ploughs. But to reformulate Ian Macpherson's question: how are we to establish the leadership in co-operative enterprises to make this happen and make the co-operative voice for peace and development heard over the noisy clamour for war? Yehuda Paz has a chapter entitled 'Are Co-operatives relevant in the 21st Century' (pp. 51-66). The author's rhetorical response is 'Can we survive the 21st century without co-operation?' The answer to both questions is, I suspect, it's up to us as co-operative members. If we can find enough co-operative courageous, transformational, servant leaders, they will still need to find courageous, transformational, servant members to transform resolutions into actions.

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Co-operatives, Management Agency, Democracy and Failure: Why Governance Should Not Be Seen as the Issue

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Abstract: Co-operative failure is in the lack of vision informing co-operative management, which is resulting in widespread co-operative bankruptcy and demutualisation. The co-operative movement's emphasis on governance has produced three paradoxes and the continuation of a historic subversion of the Co-operative Commonwealth vision and its principle that none of the surplus should be divided. Communicating purpose rather than rehearsing co-operative methodology can replace co-operative inertia. Globalisation and industrialisation have turned the Co-operative Commonwealth from utopian dream to realistic alternative. Co-operative Management rather than managing co-operatives needs to be informed by co-operative purpose if governance is to be resolved and co-operation is to be a solution to the world's problems. Four models of Capitalism require different co-operative strategies.

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Keywords: Co-operative, Commonwealth, Management, Purpose, Brand

Introduction

The problem of duality and conflicting purposes at the heart of the co-operative enterprise has a long pedigree that is sometimes presented as the conflict between social and commercial aims and sometimes as conflict between management and elected boards (Goedhart, 1928, right up to Bòòk,1992). Recently, 'managerialism' and loss of identity have been seen to require restatements and elaborations of principles (MacPherson, 1995), the conclusion being that poor governance is to blame for the failure in big co-operatives (Munkner, 2000; Birchall, 2000, 2013; Parnell, 2013; Fairbairn et al., 2015; Fulton & Girard, 2015; Couchman & Fulton, 2015; Cornforth, 2015). In the International Cooperative Alliance's (ICA) recent review of governance (Novkovic & Miner, 2015), the focus continues to be on the relationship between boards and professional management. This has been challenged as mistaking a symptom for the problem (Davis, 1995; Davis & Donaldson 1998; Davis, 1999, 2004, 2014, 2018). The problem, Davis and Donaldson have argued, lies in a focus on managing co-operatives rather than establishing the importance of *co-operative management*. The Davis and Donaldson analysis has been largely ignored in the academic evaluation of subsequent failures with the exception of Cornforth (2015). There is little or no attention to culture or purpose in these other accounts, the emphasis being more concerned with divisions of powers and roles (Novkovic & Miner, 2015).

In this paper the author reflects that the reason his and Donaldson's analysis has been largely ignored or opposed by the co-operative research and development communities is grounded in a blindness to the following three paradoxes.

Paradox 1: the co-operative academies are emphasising democratic governance when this is clearly not a strong selling point for the average co-operator and has led to the reverse of what it intended.

Paradox 2: as globalised market capitalism is clearly failing to optimise welfare, provide distributive justice or create a sustainable economy, the co-operative movement, instead of challenging with an alternative economic system and

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an alternative unifying vision addressing global responses to global crises, remains fragmented, often marginalised, and seen in many quarters as a 'tired brand' in retreat.

Paradox 3: by ignoring co-operative value based transformational leadership, co-operative developers weaken the development of a strong generic transformational brand identity. By focusing on democracy or mission – the 'how we do things around here'– they detract from the co-operative vision and purpose, the very elements that inspire engagement and change and would encourage employee and member motivation.

The paper discusses these three paradoxes in turn and then develops a clearer understanding of why the paradoxical juxtaposition of *co-operative* and *management* can lead to a new concept of co-operative leadership and followership and to a renewal of the co-operative business as a function of its transformational vision rather than merely an end in itself.

It suggests that a renewed, generic Co-operative Commonwealth brand as a focus for co-operative identity would provide renewed relevance and energy to the co-operative movement and its social philosophy. Investing in the common good challenges the postmodern obsession with power and its relativist, subjective, and practice-based philosophy along with a divisive politics based on cultural identity.

The penultimate section reflects on the alternative foundational ground upon which the Co- operative Commonwealth may claim to rest in the context of the possible power that a Commonwealth global generic branding strategy could have in rallying people from a variety of cultures and experience to challenge the existential threats humankind faces from both libertarian and authoritarian models of capitalism.

Three paradoxes

Paradox 1: the co-operative academies are emphasising democratic governance when this is clearly not a strong selling point for the average co-operator and has led to the reverse of what it intended.

Economic democracy has often been cited as an important goal for reforming the way our economy works from the 19th Century Christian Socialists (Backstrom, 1974) to the Workers Control Movement and the Industrial Common Ownership Movement (Vanek, 1978; Jones, 1975; Coates, 1976; Chaves et al., 2004). The focus has been on worker ownership and control except in the largest and arguably most successful Mondragon Group of Co-operatives where a strong pro-co-operative management culture clearly exists. Overall, direct shop floor democracy can work but such a model necessarily confines the co-operative to small scale operations. Co-operative enthusiasts in other sectors like consumer, housing, and farming and fishing producer co-operatives advocate the importance of co-operative democratic governance but at the same time see governance as the co-operatives' biggest challenge. Yet genuine popular engagement with members is hard to find in modern co-operatives. The Co-operative emphasis on governance and democratic accountability results in a focus on training co-operative leaders (board members).

The view is that the elected board directs and supervises management on behalf of the membership. This claim overlooks Michels's (1962) argument concerning the incompetence of the general population and also misses the point that the elected boards themselves become a part of the problem as, representing the tiny number of members who actually bother to vote, they become an entrenched and unrepresentative elite (Michels, 1962, p. 88). Study after study following Michels has demonstrated bureaucracy is easily distorted (Lipset, 1961), which is unsurprising given management has privileged access to information. It is relatively easy to censor or manipulate information when the CEO has prior and privileged access. In the case of most co-operatives, professional managers are likely to have greater competence than the elected persons undertaking the role of governance. Michels's thesis is confirmed powerfully in one of the most extensive surveys carried out on the UK Consumer Co-operative Movement. It was funded and supported by the Co- operative Union Ltd. and involved 16 respondents, representing 31% of the total number of UK consumer societies and 70% of all the UK Co-operative Movement's retail trade in 2000. The survey found that 95% of all respondents' membership failed to engage in their society's governance (Davis & Donaldson, 2000, p. 160).

To enrol and engage people needs visionary leadership with goals that reflect their needs. It's co-operative projects not co-operative process that must be emphasised. Managers and member activists with the values and vision to inspire a followership will be attracted to the Co-operative cause when the co-operative brand reflects the Co-operative Commonwealth vision. Catherine Webb, the Co-operative historian writing in 1904, saw in the growing Co-operative Wholesale Society (CWS) an emerging Co-operative Commonwealth (Webb, 1904, p. 10). J.T.W. Mitchell, Chairman of the English Co-operative Wholesale Society (1874-1895), saw the idea of consumer co-operation, along with his contemporary the Social Scientist, Beatrice Webb, as an ideological foil to the worker owned industrial production co-operatives. The consumer ideological assault on the original vision of the Co-operative Commonwealth was assisted by the advocates of industrial worker co-operatives who, instead of defending the Commonwealth ideal, argued erroneously that the surplus rightly belonged to the workers. Managerialism, Neoclassical economic theory and Marxism combined to smother the original Utopian vision of the Co-operative Commonwealth - looked to in the UK Congresses of the 1830s - that none of the surplus should be distributed. Instead of a unifying vision, Co-operation descended into a set of business silos and warring factions.

Writers like Catherine Webb and her contemporary Beatrice Webb no doubt saw the idea of the consumer as a unifying principle. This was a mistake, of course, as some consumers have more disposable income than others and it is to this better off segment that the UK consumer movement appealed and in so doing lost much of its idealism (Carr-Saunders et al., 1938, pp. 33-36).

But the idea of the Commonwealth was never completely eclipsed. In 1926, in a foundational statement of its aims, the newly established UK *Co-operative Party* placed the achievement of the Co-operative Commonwealth as one of its primary aims (Barnes, 1926, pp. 34-35). The focus on governance rather than on purpose, however, has meant leading academics and activists alike have failed to discuss the issue of how to progress to the *Co-operative Commonwealth*. There have been occasional honourable exceptions in the forum of Co-operative historians. Yeo's (1988) edition of papers on co-operative history and values at least struck a more reflective note on co-operative purpose; but by the 150th anniversary of the co-operative movement, the history workshop papers published in the book *Towards the Co-operative Commonwealth* (Lancaster & Maguire, 1996) did not reflect its promising title.

A strong advocate of the co-operative as an alternative business model, Parnell (1995) wrote that co- operatives are, "Enterprises run by their members, providing services to their members for the benefit of their members" (p. 67). Of course, at heart, co-operatives *should* do this when they are managed and led correctly. *The problem lies in the question of member benefits.* Many, in fact most, Co-operative Board members, managers and members see member benefits as identified with a dividend policy and short-term economies. This emphasis has led to a consumer co-operative pricing structure that has never engaged effectively with the poorest and has, in the end, been made redundant by discounter supermarkets with greater buying power and capital resources. Nor is short-term economic advantage as the grounds for understanding 'member benefits' a problem just for consumer co-operatives. In agricultural co-operatives and Building Societies, and in decisions to wind up worker co-operatives, the motive is often members' perception of short-term economic advantage without any concern for other issues. This idea that the rationale for co-operatives is for individual member benefits seen in short-term economic terms is completely at odds with the principle focus of the Co-operative Movement that was set out in 1832. Here the absolute definitive principle of a co-operative lay in its vision for social transformation summed up in the principle that *none of the surplus should be divided* (Webb, 1904, p. 58). This idea of continuous investment and reinvestment for growth was not for one or other business *but for an extension of business into a commonwealth or plurality of connected businesses that are equally accessible to all*.

It is the author's contention that losing our vision of the Commonwealth is Co-operation's biggest failure. We cannot change the world without it. If co-operation is to be a solution to the world's problems, we must promote an appropriate vision informing our mission *and therefore our operating strategies*. Without a vision there can be little that is not purely instrumental in our member and employee motivation. We need a vision that ignites local communities and generates supply chains in a united collaboration for distributive and social justice. This is the only true basis for individual freedom in the context of defending the environment and preventing climate change. A brand that does not promote a relevant vision cannot expect to evoke enthusiasm and loyalty. To brand

Co-operatives as alternative business models dilutes and fragments the co-operative message just when it needs to be loud and clear as the viable alternative to Capitalism.

Paradox 2: as globalised market capitalism is clearly failing to optimise welfare, provide distributive justice or create a sustainable economy, the co-operative movement, instead of challenging with an alternative economic system and an alternative unifying vision addressing global responses to global crises, remains fragmented, often marginalised, and seen in many quarters as a 'tired brand' in retreat.

Another consequence of focusing on governance rather than values and purpose is that co- operative development has ignored management and professional leadership in favour of investing in elected 'leaders' in the co-operative boardroom. As a result, co-operatives have developed a variation of the civil service culture where the illusion that the board makes the policies and management simply executes them is encouraged by the democracy ideologues *and* the managers, the latter being quite content to pull the strings and present options which lead boards to take the decision the CEO wants. The result is compliant boards and rather poor managers in an alliance that has little incentive for member engagement. A business culture prevails in the various co-operative sectors (silos) with mixed or confused messages as to what co-operation is ultimately for (purpose) and what it is aiming to achieve (vision).

The ICA's recent review of governance (Novkovic & Miner, 2015) looked seriously at *implementation* of the principles laid down in 1995 but here the general emphasis of the ICA has remained a continuation of the 'Civil Service' model of co-operative governance. The privileged access to information, management's greater expertise, and the greater day to day familiarity with the co-operative's business gives the CEO enormous leverage over an elected part-time board of co-operative members (farmers, workers, or consumers). Mainly the CEO can steer the board to make their chosen decision – which may well be for the best – but if things go wrong, it's the Board not the CEO who carries the legal responsibility unless the board have co-opted the CEO as a full board member (a policy the author has long advocated (Davis, 2001, pp. 32-38)). The civil service model leads to a divided culture where the board is left to look after whatever it defines as the social aspects and the management gets on with managing a business just like any other.

Whilst their competitors strive to achieve unity of purpose and direction, co-operatives operate on the basis of divided cultures and mutual tensions. The tensions can be found described as between two factions – member activists and management – with neither side very bothered to involve the broad sweep of membership except in terms of their financial engagement (management v boards). Alternatively, the tension is perceived to be between commercial needs versus social objectives. Both only negate co-operative unity/solidarity and undermine growth and performance. The co-operative as a business model cannot effectively grow without co-operative managers from CEO down engaging with members, suppliers, and customers grounded in co-operative values, identity and vision. Without a co-operative management culture informing the management decision making system there cannot be a co-operative business only a co-operative label. The outstanding commercial and social performance of the UK Co-operative Bank under the leadership of CEO Terry Thomas who put co-operative values at the core of the Banks strategy, operations, human resource management, and marketing (the latter pioneered at the time by the Bank's Head of Corporate Affairs, Simon Williams) demonstrated what can be achieved through a co-operative management culture engaging with its staff and customers or members (Davis, 2014). A business brand identity that lacks content or substance reflecting its constituency will fail as a brand and as a business. This truism is accepted throughout the literature.

This failure has seen the consumer movement in continuing post-war decline, punctuated with spectacular failures like the collapse of the London Co-operative Society, the bankruptcy of the Co-operative Retail Services (CRS) Ltd and most recently the Co-op Group's bungled intervention that bankrupted their only successful post war branded business, the Co-operative Bank. This cost so much that it required the sale of other parts of the Co-op Group to finance the losses (Davis, 2014). Such retrenchment is far from confined to the UK; other examples are Konsum, Austria, 1995; Co-op Dortmund, Germany, 1998; and Co-op Atlantic Canada, 2015 (Munker, 2000; Parnell, 2013; Fairbairn et al., 2015). In other sectors like the Building Societies, demutualization between 1989 and 1994 in the UK transferred a substantial proportion of all UK Building Society Assets to the private sector (Cook et al., 2001, pp. 15-17). In Australia, the US and Canada between 1994 and 2014 there were 25 demutualizations across agricultural co-operatives, consumer co-operatives and financial services co-operatives (Fulton et al., 2015, Table 1, p. 43). In many of the demutualizations, political encouragement by pro libertarian capitalist governments and the prospects of immediate short-term incentives encouraged a member-led process to privatize. In other cases, such as the Canadian Wheat Pool, the demutualization process was actively led by management (Fulton et al., 2009). Even the fabled Basque Mondragon Co-operative Group has been forced to dissolve FAGOR, their largest manufacturer (Basterretxea et al., 2020).

In cases where widespread agricultural co-operation continues and is even celebrated (Novkovic & Webb, 2014, p. 4), it is merely to manage poor southern hemisphere farmers trapped within the lowest value-added section of the supply chain. These co-operators are sometimes victims of corrupt government control without any attempt by the consumer co- operatives to develop a global logistics capability to come to their aid (University of Leicester School of Business, 2022). The fair trade brand is something many consumer co-operatives have adopted but it was not initiated by them and leaves many small co-operative food producers out in the cold.

Paradox 3: by ignoring co-operative value based transformational leadership, co-operative developers weaken the development of a strong generic transformational brand identity. By focusing on democracy or mission – the 'how we do things around here'– they detract from the co-operative vision and purpose, the very elements that inspire engagement and change and would encourage employee and member motivation.

The silos within which the co-operative movement sectors are managed, coupled to a restrictive business model and a civil service governance system, leads to a failure of one key but ignored co-operative principle, namely co-operation among co-operatives. Without leadership vision there can never be real co-operation among co-operatives. It was the late Will Watkins who wrote that Unity was the most important principle of co-operation ahead of democracy (Watkins, 1986, p.19). Even *within* its silos, the lack of co-operative unity is plain for all to see. In the credit union movement, the World Council of Credit Unions and the Asian Confederation of Credit Unions have still failed to develop their own visa card. The .coop domain is not managed as a co-operative with membership open to all co-operatives.

The failure of co-operatives to co-operate had perhaps one of its most significant consequences for the UK consumer movement when, at the time leading up the collapse of CRS Ltd, and after a continuous post war retrenchment fighting the growing onslaught of discounters, *the UK Consumer Co-operatives were still operating two rival buying groups*: CRS Ltd being members of the Consortium of Independent Co-operatives and CWS Ltd the Co-operative Retail Trading Group, which was established by a CWS executive later implicated in the city based attempted demutualization of CWS Ltd. The Co-operative Commission that followed the collapse of CRS and the failed demutualization of CWS Ltd was billed as laying the foundations for better governance and member engagement. However, as two later inquiries into the rebranded Co-operative Group's (formerly CWS Ltd) bungled merger of the Co-operative Bank and the Britannia Building Society commented, the Co-operative Group's new Board was unrepresentative, elected from a very small segment of the membership (Kelly, 2014). The board members were not given the right information by management concerning the merger and lacked the ability to recognize the flawed due diligence process that was being implemented, demonstrating that if anything, post Co-operative Commission 2000, the UK Co-op Group leadership, management and member engagement had gone backwards, resulting in a catastrophic destruction of UK co-operative assets. With the Co-operative Group's management culture contemptuous of co-operative values, it is hardly surprising that it gambled with a century of co-operative assets and lost (Davis, 2014). Again, fingers were pointed at failure of governance, but the real failure was a lack of professional co-operative leadership whose 'reforms' following the Commission Report of 2000 were really a maneuver to ensure the continued power of a bureaucracy. The Co-operative Group's top management team lacked any sense of co-operative purpose or vision for the direction for the Group's structure. In their eyes it made no economic sense and was unmanageable. The Co-op Commission 2000 restructuring obscured the reality that management culture had not changed. In order to change the culture, we need a new principle of Co- operative Management (Davis, 1995) driving co-operative management recruitment, selection and development programmes and possibly an "ideal type" model of what a co- operative leader is like and what their source of legitimation is based upon (Davis, 2018).

Does *Co-operative Management* mean something different to managing co-operatives? Anders Ortenblad (2010) has argued in the context of the controversy of the terms 'Knowledge' and 'Management' that bringing together terms that appear to be incompatible or at least odd or paradoxical can be useful in developing new insights and perspectives. He identifies three philosophical approaches to such a strategy. A fragmentary approach that creates a summation of the two terms' meanings, an interpretative approach that seeks to see meaning in how the term is used in practice, and thirdly, a Wholeness approach (Ortenblad, 2010, pp. 445-446) where the combination of concepts creates an entirely different concept. It is the latter approach that is taken here. The author contends that co-operation when combined with the term management implies not a managerial leadership evaluated and committed to a controlling discipline of 'scientific' criteria based upon efficiency as measured by Return on Capital Employed, but a management leadership measured by its developmental impact on the people it serves and animates - not controls - through a process of engagement and mobilization of human capital in their community context. Efficiency is measured in terms of human welfare and the common good as the product of the combination of capital and labour in the context of common ownership and universal access. Such a new approach will facilitate a true profession of Co-operative Management whose legitimation for leadership in co-operatives is grounded on their commitment to serving the Co-operative Commonwealth vision and the co-operative members, other stakeholders, and society at large whose welfare and development is restricted only in so far as these objectives do not impinge on the common good. The author has suggested a Weberian "ideal type" template as a basis for recruitment, selection and development (Davis, 2018, p. 120).

Toward a renewed co-operative vision

A Co-operative Commonwealth strategy will perhaps realistically always be a work in progress but, for it to succeed at all, it must create a focus and rallying point as an inclusive economic system reaching out to all who are revolted by the existing state of affairs or are its victims. There needs to be positive brand identification. Here we can take a leaf from Capitalism's book. How did diamonds become the most popular stone for engagement rings? The answer is several decades of generic brand promotion to reach out and manage values and aspirations. Who reading this paper has not heard of the 'diamonds are forever' tag line (Hart, 2002, pp. 145-146)? Today the Co-operative Commonwealth needs a generic brand that speaks to the aspirations of the millions of protesting youth, the millions of enraged and alienated oldies, the millions of courageous human rights and habitat defenders, and the billions of victims of globalization and corporate capitalism. A *Commonwealth Co-ops* brand – one that is committed to re-investing all the surplus for their members' and wider societies' security and development – could become one that all disaffected and those needing a means for self-help and mobilization could identify with and rally to. The author believes such co-ops will be a minority at the start but the hope for an alternative better future will draw the very best humanity has to offer to them. They will become the focus for innovation and co-operation among co-operatives.

Such co-operatives need first and foremost to recognize the threats and opportunities that the current political and technological environments have created, and the risks posed by the state, big business and organized crime.

The global political context and the co-operative strategic response

A global and transformational Co-operative Movement needs strategies to respond to the realities of four different models of capitalism currently operating in the global economy.

Social Democratic Capitalism, primarily located in the European Union, is where the working classes are best organised both politically and industrially. Here co-operative transformational strategies and the co-operative movement have the only real chance of a productive partnership with the state. But even here the co-operative movement must avoid dependency and retain their own independent agency.

In the American libertarian model of capitalism there are strong individual rights, partially due to America's revolutionary past, and a state hostile to collective organisation by working people and dominated by its billionaire elites. Here social polarization and entrenched poverty and racial divisions have spawned organised criminal activity that can and has proved destructive of genuine labour organisation and made reaching out to the very poorest communities challenging. This is also true in Latin America and Africa. Although North American co-operatives have in the past been very successful, their management and boards often demonstrate a strong business culture creating a barrier for outreach to the idealistic, and often vibrant co-operative-minded but poorer sections of US civil society. But there are clear opportunities for the Co-operative Commonwealth brand in North America (USA and Canada).

The third model, Crony Capitalism, is widespread in Africa, the Middle East, Central Asia, Eastern Europe, Latin America and the Asia Pacific. It presents a wide degree of variation of conditions on the ground. In the worst cases of Crony Capitalism, democratic processes are largely a fraud and, in many, criminal and corrupt practices by the elites go relatively unchallenged and, in places, co-operatives themselves become tools for elite manipulation. At the other end of this spectrum, democratic reforming parties can and do get elected and here the scope for co-operative action is wide ranging. However, such regimes, when they threaten the economic interests of bigger powers, have been short lived and provoked often bloody dictatorships.

Finally, there is the authoritarian capitalism found in China. There is little chance for a genuine autonomous co-operative movement here and advocacy would lead almost certainly to imprisonment, torture and death. Nevertheless, it would be wrong, in the author's view, to exclude Chinese co-operatives or co-operatives from any other country, from collaborating with the wider movement where practically possible.

A central goal in the liberation of humankind by co-operatives has to be the facilitation and promotion of social democracy and peaceful, incremental, and largely non expropriation-based development. Reforming states towards a Social Democratic model of capitalism is an essential evolutionary strategy for global transformation. Political and religious neutrality does not, in the author's view, mean standing back from the promotion of a tolerant and free, welfare grounded, and social democratic state. However, the growth of authoritarian capitalism via populist politics promoted via unaccountable sources through social media should not be underestimated in Co-operative Strategy. We should not be blind to the threats posed to Social Democracy by the Libertarian and Authoritarian models whose elites see various threats to their own power demonstrated in the Social Democratic Model.

The technological challenge and opportunity

Today, humanity is sleepwalking into an abyss. This 'sleepwalk' may well be orchestrated. In a world without privacy, can democracy and human rights survive?

> When it comes to the future of urban modelling, the development of small, autonomous robots that can "listen in" and deliver feedback and solutions when required could become the next step in this ever-changing technology world. (Allam, 2018, p. 799)

In the use of social media,

> *...consider Clearview AI: a tiny, secretive start up that became the subject of a recent investigation by Kashmir Hill in The New York Times. According to the article, the company scraped billions of photos from social-networking and other sites on the web—without permission from the sites in question, or the users who submitted them—and built a comprehensive database of labelled faces primed for search by facial recognition. Their early customers included multiple police departments (and individual officers), which used the tool without warrants. Clearview has argued they have a right to the data because they're "public*". *(Zittrain, 2020)*

In terms of manipulation of people for commercial and political purposes, those at the very cutting edge of the Social Media ecology have given dramatic accounts of the unexpected consequences of their inventions (Skyler et al., 2020). Their testimony has demonstrated how the new technologies cast a fundamental shadow over the idea of democracy, consumer choice and consumer sovereignty, both important ideological justifications for capitalism.

As labour continues to be devalued and even replaced by privately owned technology via robotics and AI, can the labour market be an effective mechanism for equitable sharing in wealth creation?

> *New technologies tend to favour some particular skills while devaluing and making others redundant, but also lowering the demand for them by firms that use such new technologies. The literature describes this trend as 'skill-biased technological change'. (Dachs, 2018, p. 6)*

Studies exploring the 'Polarization theses' are suggesting that in big cities the shrinking middle class are creating real barriers to social mobility and the distance between the top strata and the rest is also growing across a number of measures (Chiu & Lui, 2004; Reeves & Joo, 2016). Thus, technology is undermining another justification for the continuation of capitalism: the idea of equal opportunities for upward social mobility.

The consequences of the current inequality of access to work opportunities and wealth are articulated starkly in the latest Oxfam global report published in January 2022, *Inequality Kills*, showing the extent and consequences of the accelerating polarization and concentration of economic power. The ideological response to the collapse of the neo classical model of the market as a functioning reality for most economic activity today has been to rely on entrepreneurship to move and shake the economy out of monopoly and oligopoly towards growth and reform (Schumpeter, 1942, p. 117). Business Schools argue the entrepreneur is a force for the common good: while billionaires rocket their egos into space, one person every four seconds dies of a poverty related illness (Oxfam, 2022, p. 8). Whilst the wealth of the 10 richest men has doubled during the Covid-19 crises, the incomes of 99% of humanity are worse off, and these ten men's combined wealth is equal to the combined wealth of the world's poorest 3.1 billion citizens (Oxfam, 2022, p. 9).

On climate change, the evidence suggests that the poorest are likely to suffer the consequences first and hardest. The UN Climate Panel has given the world just eight years (from 2022-30) to reduce carbon emissions by 45% if we are to avoid irreversible and calamitous climate change (Intergovernmental Panel for Climate Change, 2022). China does not expect to start reducing its emission levels *before* 2030 and most of US President Biden's promises to the world on climate change have been stalled by Congress. People are increasingly packed into mega cities while industrialisation of agriculture further invades what remain of the world's natural habitats. Estimates vary widely but all agree the situation is serious and due to human activities not "natural background rates". "Harvard biologist E. O. Wilson estimates that 30,000 species per year (or three species per hour) are being driven to extinction" (Centre for Biological Diversity, 2022).

Co-operative promotional agencies and individual co-operatives prefer to keep within the safety of mainstream Corporate Social Responsibility (CSR) and Business Ethics (BE) narratives. These narratives are failing and ignore the hegemonic ambitions and wars generated by so called superpowers. Disarmament may be a futile dream currently but a movement for peaceful dialogue surely ought to be within reach. This must include the extension of mutually beneficial trade relationships *and recognition of the mutual need for security as essential for peace*. Here the International Co-operative Alliance has a track record of success in maintaining member unity across political divides and in its promotion of world peace (Rhodes, 1995, p. 29).

Another challenge to Co-operative Social Theory arises from postmodernist critical theory, which currently influences much leftwing intellectual activity. This has focused on the theories of Manuel Castells, Alain Touraine, Alberto Melucci, and Jurgen Habermans whose contributions are central to the large body of New Social Movement theorizing (Strydom, 1990). "Identity Theory and Social Identity Theory" both address the social nature of self as constituted by society, and eschew perspectives that treat self as independent of and prior to society" (Hogg et al., 1995, p. 255).

In such a relativistic view of humanity "nothing is fundamental" (Foucault, 1991, p. 247), yet, of course, when nothing is fundamental, there is always the recourse to power as *the* fundamental.

> *Power is the most fundamental process in society, since society is defined around values and institutions, and what is valued and institutionalized is defined by power relationships. Power is the relational capacity that enables a social actor to influence asymmetrically the decisions of other social actor(s) in ways that favour the empowered actor's will, interests, and values. (Castells, 2009, p. 10)*

Castells never suggests there is no possibility for resistance to power, quite the contrary; however, such power relationships always suggest an element of individual acceptance of the legitimation in the power relationship, which is why Foucault advocates an ethic of permanent resistance. The co-operative answer to this line of philosophy is to insist that the dignity of the individual is an a priori foundational principle for all human-centered social theory and that the grounds for this assertion lies in the human primate's unique capacity for *agape* or self-sacrificial love not just for family and children - all animals will try to protect their young - but for abstract ideas and for total strangers. The rule of love not the exercise of power is the foundational principle which ultimately is the grounds for solidarity within the Co-operative Commonwealth project and its capacity is what truly distinguishes humans from the rest of the natural world and also unites us across all cultures.

Conclusion

This paper and my work more generally are grounded in a mix of Co-operative History, Thomist Realism, Natural Philosophy, Walter Crane and the 19th Century Romantics, all somewhat eclectically combined with insights from the management literature produced by the Business Schools. My approach has been subject to criticism from the co-operative research community and could be seen by the postmodern left as a naive presentation of a reconciled human community, a normative utopia, that is belied by historical observation. I have brought these strands together, however, to remind the Co-operative Movement to consider not so much Rochdale Principles as the Rochdale Purpose. In this endeavour, I remain unapologetic. My claim is that today more than ever the original Rochdale purpose remains valid. If one accepts the purpose, it is self-evident surely that this purpose informs both the job description and the person specification for a *Co-operative Manager.* Co-operatives while they survive will always remain a contested terrain precisely because within their structures and philosophy the historic purpose that I remind co-operators of remains a potentiality and, therefore, a threat to our ruling elites.

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