



The meaning, importance and practice of the co-operative principles: Qualitative evidence from the Australian co-operative sector

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ABSTRACT

This paper explores the underlying reasons for expressed views about the importance and meaning of the co-operative principles from an Australian perspective. The results suggest that even though the 'core' principles of voluntary and open membership, democratic control and member economic participation are confirmed to have universal and fundamental support, some participants considered the principles associated with education, training and information or the concern for the community to be preeminent. Co-operation among co-operatives is given little emphasis due to a lack of critical mass within Australia. Participants provided some interesting interpretations of some principles, including: the meaning of 'open' membership, the appropriate focus of education and training, and the relevance of advertising to the concern for community. Even though some co-operatives do not follow all the principles, they act as important aspirational aims of 'human value' and serve as useful guideposts for achieving desired social objectives through economic activities.

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1. Introduction

The concept 'co-operative' is typically back-dated to 1844 and the *Rochdale Society of Equitable Pioneers*, a group of weavers and visionaries in England who decided to establish a mutual self-help organisation, to advance their cause and achieve social objectives through economic activities (Fairbairn, 1994). As an eventual consequence of the Rochdale principles, the International Co-operative Alliance (ICA) developed and historically refined a statement on the co-operative identity. The ICA adjusted co-operative principles in 1937, 1966 and 1995 (Hoyt, 1996). In 1995, the ICA released a Statement of Co-operative Identity that defined the characteristics and values which are central to co-operative organisation and the principles that embody these (Hoyt, 1996). The statement, in part, sets out the co-operative values of self-help, democracy, equality, equity and solidarity. It is recommended that these values are then put into practice by following a set of seven guiding principles: (1) voluntary and open membership, (2) democratic member control, (3) member economic participation,

(4) autonomy and independence, (5) education, training and information, (6) co-operation among co-operatives, and (7) concern for community. The statement was based on practice and successful experiences of co-operatives worldwide, and was intended to shape the structure and role of co-operatives in the twenty-first century (Hoyt, 1996; ICA, 1996). Implications were not merely practical. Jussila (2013) set the basic ideas manifested in the above values and principles as a starting point for the development of theory on co-operative organisations and their management in this journal.

While some principles, such as concern for community, have been added to ICA principles relatively recently, the first three principles specifying openness, democratic control and the source and management of capital, can be seen as fundamental ones and have remained somewhat constant within the ICA principles. In essence, the adoption of these principles ensures that the organisation's primary objective is to serve the members, rather than maximise profit, as in non-co-operative business (Hind, 1994). By focusing on a co-operative's members/users some scholars further suggest that the core of co-operative identity lies in three basic principles: (1) user-owner, (2) user-control and (3) user-benefits (Birchall, 2005; Dunn, 1986; Dunn, Crooks, Frederick, Kennedy, & Wadsworth, 2002; Hardesty, 1992; Siebert, 1994; Zeuli & Cropp, 2004). This has also been endorsed by the Agricultural Co-operative Service within the United States Department of Agriculture (Rathbone & Wissman, 1993).

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In general, it is thought that the principles play an integral part in the operations of co-operatives, and the ICA principles have been included in legal frameworks of many countries around the world (Cracogna, Fici, & Henry, 2013; Henry, 2002; Somerville, 2007). The principles are also part of legislative frameworks for co-operatives in Australia, for example in New South Wales (NSW), Australia, co-operatives registered under the *Co-operatives Act 1992* subscribe to these principles. Further, it is proposed that the principles will form part of a new *Co-operative National Law* in Australia.

As always in the interplay of theory and practice, the application of the ideas of co-operation in co-operatives varies. Both internal and external pressures influence how intensely the core principles are adhered to in practice. Moving away from these brings into question a co-operative's meaning and legitimacy and diminishes co-operative character over time (Cote, 2000), or, in Somerville's (2007) words, can lead towards "degeneration" and loss of distinct identity of co-operatives. However, assessment of the existing literature (Wilson & MacLean, 2012) suggests that there is not significant empirical (as distinct from theoretical) literature on the relevance of co-operative principles, particularly in current contexts.

This paper provides an empirical analysis of the meanings attached to co-operative principles and how those principles are instituted at the level of organisational practice in the context of the Australian co-operative sector. Currently there are over 1600 Australian co-operatives, with a turnover of over \$17 billion and 13.5 million members (Denniss & Baker, 2012), yet the literature which explicitly addresses the issue of co-operative identity in an Australian context is practically non-existent (apart from Mazzarol, Mamouni Limnios, & Simmons, 2012). Given this lack of literature, the purpose of this paper is to explore how the ICA co-operative principles are currently applied to the co-operative sector. The focus of this research is on why and how things occur rather than to what extent. In essence, this research focuses on exploring: (a) an understanding of the meaning of the principles, (b) the importance of the principles, and (c) how closely co-operatives follow the principles in practice.

The paper starts by reviewing existing literature on the relevance of co-operative principles. It then specifies the research design, and outlines the empirical findings of conducting 18 in-depth interviews with members of co-operatives. The empirical findings regarding the meaning attached to seven ICA co-operative principles are first presented for each of the principles separately, and then interpreted in the context of their relationship to selected management practices. The paper finishes by analysing specific dimensions of the relevance of ICA co-operative principles in an Australian context.

2. Do co-operatives adhere to the ICA principles?

A number of authors have provided an analysis of the ICA principles, including MacPherson (1996), Hoyt (1996), Birchall (2005), Novkovic (2006) and Somerville (2007). Most of these and other related studies are mainly theoretical pieces about: how the principles may apply in practice; threats to their application; the benefits from following the principles; and the relationship of the principles to different types of co-operatives. The analysis of the co-operative principles provided by MacPherson (1996) shows just how broadly the principles can be applied, as reflected by the lack of consensus in the literature. Recent research by Wilson and MacLean (2012) found that co-operative values and principles are being applied in varying ways, across a number of contexts and are not being adhered to in any strict sense.

Reflecting on application of the co-operative principles, ten years after the most recent ICA co-operative identity statement had been introduced, Birchall (2005) wrote that it appeared that

there were differences across the various co-operative sectors, with most adherences in consumer, worker, credit, health and social co-operatives (co-ops). Generally, producer co-ops tend to use the three core principles, while insurance and financial services co-ops do not appear to utilise principles. Despite the relationship between co-operative type and the use of principles, Birchall (2011) argued that the first four principles are primary and fundamental, while the latter three are secondary and more aspirational to defining the identity of a co-operative. In general, it is suggested that traditional co-operatives apply the principles in the strictest sense with the mutual interests of members being the central focus of the organisation. At the other end of the spectrum, new-generation co-operatives (Chaddad & Cook, 2004) have moved closer to the form of an investor-owned firm, relaxing the application of the principles somewhat, in particular through the access of external finance.

In terms of the consequences of following the principles, the notion of "co-operative difference" is often touted. Differences include, but are not limited to: differential cost/pricing policies which enhance market orientation; better communication; reduced social costs; enhanced employee effort; gaining lower input prices; improved membership morale; significant positive influence on organisational commitment; and empowerment of members and their communities; see, for example, Hoyt (1996), Novkovic (2006, 2008) and Bernardi (2007).

An overview of the particular empirical studies which were specifically assessing the importance of the principles in practice (Table 1), suggests varying relevance of the principles according to co-operative type and purpose. Two comprehensive studies done by the U.S. Department of Agriculture (Gray & Kraenzle, 1998; Reynolds, Gray, & Kraenzle, 1997), on the relevance of the principles for agricultural co-operatives, found evidence of strong adherence to the one-member-one-vote principle. A study by Siebert (1994), also done within the empirical context of agricultural co-operatives, indicated moderate support for the user-benefit and user-controlled principles and a lack of support for the user-finance principle. As Bickle and Wilkins (2000) noted, results "may seem surprising or even worrying to some" (p. 182): for example, only one in ten of the co-operatives' managers included in their own study identified *democracy, equality, equity and solidarity* as the most important co-operative values.

Novkovic (2006) slightly differs from other studies as, rather than provide expert-informed commentary, she reported on the results from a small-scale *quantitative* study, involving primarily Canadian co-ops, analysing how important and how closely co-operatives believe the principles are followed in practice. She found overwhelming support for the importance and practice of the principles. Survey results indicated that over 90% of respondents suggested the principles are important, while over 80% suggested they are practiced through Board decisions. While otherwise important, this study did not tap into the reasons why and how these principles are important or practiced. Other studies which have used primarily a quantitative methodology and large-scale surveys, to examine some aspects of the relevance of the co-operative principles, include Bickle and Wilkins (2000) and Adrian and Green (2001).

Most of these studies assessed members' beliefs in co-operative principles by applying a five point Likert scale tool (Adrian & Green, 2001; Gray & Kraenzle, 1998; Siebert, 1994), and some used a dichotomy measure in assessing adherence to ICA principles of democratic member control and member economic participation (Kyriakopoulos, Meulenber, & Nilsson, 2004). For instance members' beliefs in co-operative principles were assessed by using the following statements: (1) co-operatives should accept anyone who wants to join, (2) co-operatives should practise one-person-one-vote, (3) members should receive patronage dividends

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