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Cooperative management

**A successful model facing the
challenges of the future**

Daniel Côté

Introduction

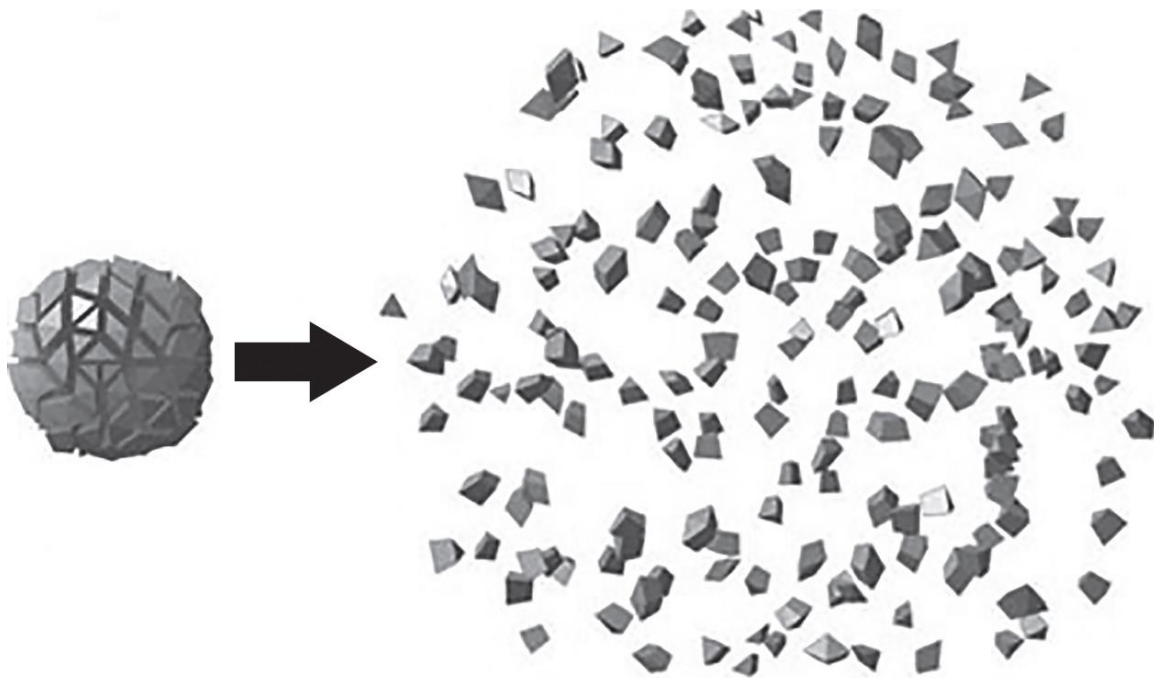
This book is the fruit of our work on and with the cooperatives of the last 20 years. Throughout this period, we have conducted a great deal of research on the management of co-operatives, many using the research-action methodology, i.e. directly involving teams of managers, employees and directors. We have also written many co-op management cases and have been sitting on various (cooperative) boards.

This book is structured in two parts, first the theoretical models (4 chapters), then the cases (10 chapters). At the theoretical level, our work has led to the development of three key ideas on which our whole conception of co-operative management rests. First, a cooperative equilibrium model that aligns cooperative values and principles in an adapted management framework. This model was developed by analyzing Agropur, a Canadian dairy cooperative. A second key model, developed in the late 1990s, has allowed us to identify what Chavez and Monzon (2001) have called the "denaturalizing tendencies" leading to an identity malaise affecting cooperatives. It was after many discussions with managers of a large Canadian financial cooperative that we came to identify this malaise experienced by the latter when they asked themselves the question ... what distinguishes us in this end of 20th century? The third central idea in our cooperative management approach identifies the strategic levers of what we have named a new cooperative paradigm (NPC). It is by associating the emergence of new key factors, sought by all organizations regardless of their legal status, with the potential inherent in the cooperative model that we have come to this conclusion. Begun more than 20 years ago, this reflection leads us today to recognize the potential for significant competitive advantages inherent in the cooperative organization.

Our first chapter addresses the issue of identity malaise observed in many cooperatives. This phenomenon results in the alignment of essentially copied business practices with those of investor's own firms, while managers say that they no longer know how to differentiate themselves from them. The model that we propose is structured on two axes, namely the intensity of the cooperative rules and the intensity of the market rules. This model identifies four cooperative profiles. The analysis of the factors having an influence, as much on the cooperative rules as the market rules, allows us to formulate an explanatory hypothesis of the emergence of this identity malaise. To better understand the impact of structural changes (economy and society) on the application of cooperative rules, we use the analogy of entropy as a measure of disorder (see Figure I1). This analogy illustrates the phenomenon observed within cooperatives when the rules that distinguish them no longer offer the ability to differentiate their actions and their business practices.

Several structural changes have influenced cooperative rules in relation to their business orientations and practices. In this first chapter, we address the issues of market failure, individualization, size and collective action, and sense of ownership. All of these factors are impacting how the cooperative rules influence the cooperative's business orientations and practices. The loss of influence of the cooperative rules results in an increase in the entropy measure (our analogy) within the cooperative entity, while the latter will want to regulate its organization, its actions, its methods and its orientation on the pursuit of objectives more dictated by the market rules.

Figure I1 – From order to disorder ... the law of entropy



Adapted from A. Peshin, <http://www.science.com>

With regard to the intensity of the market rules, we use the concept of isomorphism analyzed by Di Maggio and Powel (1983). For these authors, the isomorphism phenomenon analyzes the convergence of behaviors between organisms evolving in an identical environment. They thus define a process of homogenization of the structure, culture and product of organizations¹. This phenomenon will be fueled by economic competition, but also by institutional issues such as coercion (regulatory, political and legitimization pressures), mimicry and the search for standardized responses to face the uncertainties of our environment, the normative and the acceptance to approach the organization in a certain way. This normative isomorphism develops in parallel with the professionalization of the members of the organization, through the standardization of educational curricula and professional networks². Adding to these sources of competitive and institutional pressure, we must recognize the lack of training in the management of cooperatives offered to managers (especially in management schools), which reinforces the propensity of cooperative organizations to settle their actions, guidance and methods on those of the capitalist firms. Seen in this light, it is not surprising that cooperative managers have more and more difficulty recognizing and promoting their cooperative difference, hence our finding of "identity malaise".

The second chapter addresses what we call cooperative equilibrium. As mentioned earlier, the development of this model was the result of our observation of the model in place at Agropur. In

¹ https://wikipedia.org/isomorphisme_institutionnel

² Idem

addition, we have had many opportunities to validate its relevance, both with the numerous case studies done over time and with the co-op managers registered in the graduate program offered at St-Mary's University, where we have been teaching since 2006.

For the logic of action specific to the cooperative management to be expressed daily, we must articulate the values, principles and cooperative rules in an appropriate management framework. The model that we propose here is based first on the need to integrate the cooperative duality, the linkage association-enterprise at the heart of this unique logic of action. The association-enterprise alignment ensures a necessary and sufficient control of the cooperative organization by the owner-user members.

Beyond the challenges specific to the association-enterprise duality such as, the collective-individual, the social-economic, etc., a proper cooperative management framework must allow to build an alignment between the values and purpose of the organization, the foundations of the cooperative business model and the selection of key performance indicators (KPIs). Values and purpose reflect a core ideology (Collins and Porras, 1996) that is inspiring, a guide. This core ideology must be authentic, non-negotiable, natural, and define the timeless character of the organization. The co-operative business model will have to meet the challenge of differentiating itself, reflecting values and purpose at the heart of its *raison d'être*, while demonstrating its ability to compete and support a sustainable strategic position. The KPIs must measure the (unique) value delivered to key stakeholders.

In the second chapter, we will further develop the foundations of a cooperative business model to demonstrate how and how it can differentiate itself from a business model of a capitalist firm ... but remaining competitive. Understanding these foundations is even more necessary as companies are under constant pressure to force them adapt their model to remain competitive. Cooperatives are of course subject to these same pressures and must renew themselves, but without sacrificing their identity. However, this challenging issue will be best explored through the cases published in the second part of this book.

The third key idea of our cooperative management approach introduces a new cooperative paradigm (NCP). The (dictionary) Webster defines paradigm shift as *"an important change that occurs when the habitual way of thinking or doing something is replaced by a new and different way. This discovery will lead to a paradigm shift in our understanding of this evolution."*

It was in the mid-1990s that we started using this idea of an NCP (Côté, 1997, 2000). The basic idea of this NCP is focused on finding the benefits inherent in the cooperative organization model when faced with current and future challenges, compared to other modes of organization. Initially (1996), we retained the challenges of loyalty management (of customers), the mobilization based on values, the learning organization, and the quest for meaning and legitimacy (Côté, 2000). Today, our vision of these challenges is fueled by the recognition of emerging strategies namely the congruence of values viewed from the perspective of Schwartz's (1992) taxonomy of values, from loyalty orientation to commitment orientation, the psychological ownership, the democratization and the process of co-creation of value. At the heart of these strategic levers is the necessary engagement of customer and employee, a challenge deemed essential by a large majority of managers, regardless of organizational status.

These different emerging models reflect the obligation for (all) companies to develop a new business model that goes beyond the quest for efficiency, which companies have done throughout the 20th century. Prahalad and Ramaswamy (2002) argue that businesses now need to learn how to manage the customer experience in the 21st century, as they are finding it increasingly difficult to differentiate themselves with their product mix. These products and services are increasingly commodities. When consumers no longer see differentiation, they buy smartly at the lowest price.

Figure I2 – the New Cooperative Paradigm

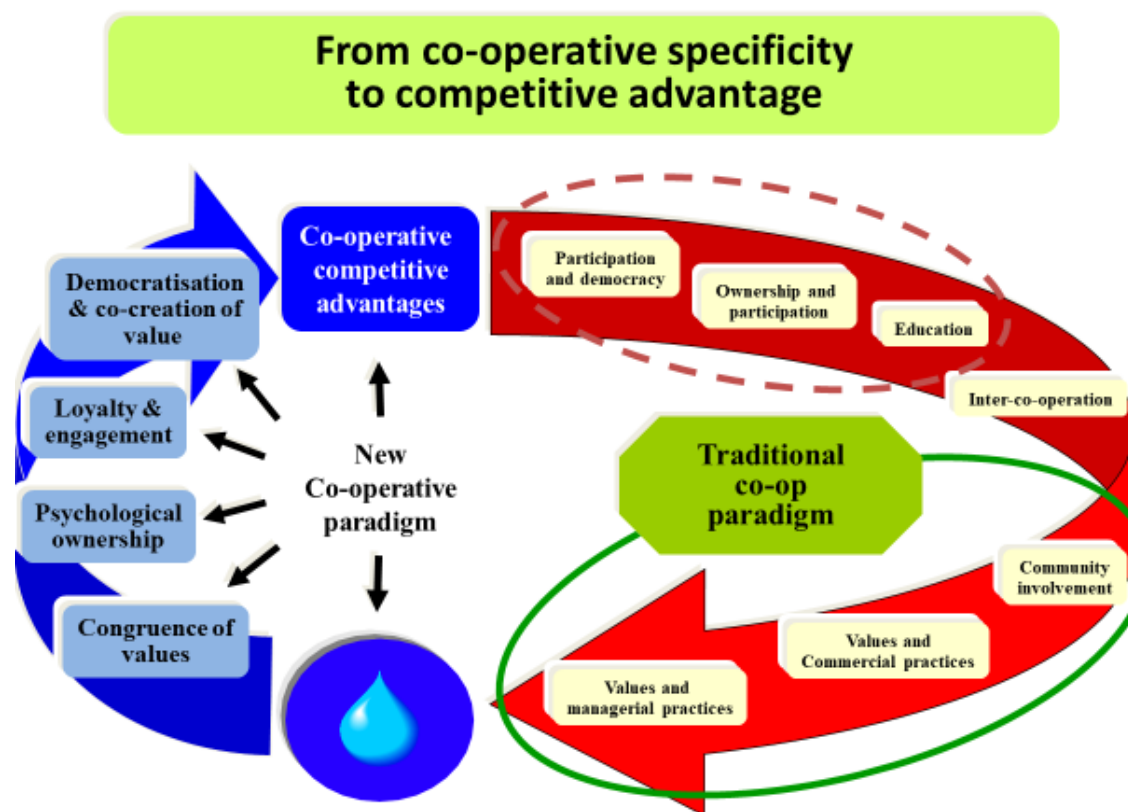


Figure I2 illustrates this NCP. Traditionally recognized cooperative values and principles are shown on the right. The emerging challenges and strategies that we have just identified are on the left.

For each of these challenges, we must demonstrate:

1. that they reflect as many emerging models offering one or more avenue (s) to address the intensification of the competition ... and the "Walmartisation" of the markets;
2. that they are sources of sustainable competitive advantages;
3. that they allow the development of key components at the heart of the cooperative organization mode;

4. they emphasize the inherent advantages of the cooperative organization model in addressing these challenges leading to the development of a sustainable competitive position.

The strategic importance of this NCP is also in line with the observation (hypothesis) that the traditional cooperative paradigm is doomed...as to be seen in the first chapter. Seen from a different perspective, it is important to recognize that the key emerging factors (the challenges and strategies recognized in our NCP) lead all organizations to develop associative practices [...]. For capitalist organizations, this will require a deep transformation while for cooperatives it demands to reconnect with their roots and unique nature and structure.

The second part of our book presents several cases of cooperative management, cases that have been written over the last 20 years. These cases illustrate the different facets and components of the key ideas (models) we just briefly introduced.

As mentioned earlier, Agropur was at the heart of our conceptualization of the cooperative equilibrium model. So, of course, we have a case on this cooperative. This case illustrates the cooperative equilibrium model, while associative and business strands are highlighted. In fact, we offer three cases on this cooperative (Agropur A, B and C), each written at a different period in its history. The first case illustrates the overall model, association & enterprise. The second case deals with the quest for cohesion (between the members and the co-operative) experienced in the late 90s, and the consultation process to get there. The third case also illustrates the cohesion challenges, but this time between the business and market conditions.

To fully understand the dynamics of the cooperative equilibrium model, we must also focus on the issues and challenges specific to the core ideology (values and purpose) and the business model.

We present several cases to illustrate these key components of the cooperative equilibrium. The cases of Seward, Weaver Street Market and Vancity were written for this purpose. The first two are food co-ops in the United States while the third is a credit union in Vancouver, Canada.

Reading these cases illustrates how a cooperative can build a different, competitive and value-creating business model for its members and their communities.

To approach the BSC in a context of cooperative equilibrium, we introduce the case of Coop HEC, a cooperative in a university environment (HEC Montréal). This community cooperative brings together student and university staff members (including professors). This case presents as much the strategic issues (...) as well as member perspectives, financial, business processes and human resources perspectives as core components of a BSC. The "balanced" approach demonstrates the integration of the four perspectives at the heart of the BSC in a cooperative management context, which facilitates the adjustment of actions, methods and orientation for the pursuit of an objective focused on the optimization of service to members ... while ensuring the sustainability of the cooperative.

Finally, in keeping with our cooperative equilibrium model, we present a case that deals with leadership issues related to co-operative identity. This case is about The Co-operators, Canadian Insurance Cooperative.

To illustrate some key aspects of the NCP, we have retained three cases: St-Roch-de-L'Achigan (Caisse Desjardins in Quebec), Affinity Plus Credit Union and Educators Credit Union (two US financial co-operatives). These three cases will address the issues of congruence of values, psychological ownership, loyalty management and engagement (both employees and members), as well as democratization and value co-creation.

At this stage in the evolution of our research, we believe that we can only empirically treat these emerging models in an experimental phase. We are making an exception with the issues and challenges of loyalty management since our research-action with the Caisse de Saint-Roch L'Achigan extended over a period of 10 years.

The model relating to identity malaise is illustrated by examples from chapter one. These examples were developed in the late 1990s as part of an international search that we had the opportunity to coordinate³. On this occasion, several cases of European and Canadian co-operatives were written. These cases illustrate very well the effects of denaturalizing tendencies (Chavez and Monzon, 2001) to which cooperatives are subjected on an international scale. However, the reader should keep in mind that these cases reflect what appears to be the reality of these cooperatives in the late 1990s and early 2000s. As the aim here is to illustrate the denaturalizing trajectory (Chavez and Monzon, 2001) followed by many of the cooperatives, these cases remain relevant in the context of this book.