International Journal of Co-operative Management

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Contents

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Editorial

Why an international journal of co-operative management? First and foremost the answer must be to provide a platform for discussion and debate concerning the management of the co-operative sector. This is a social and economic movement with its own distinct history, identity, structure and purpose. A movement of nearly three quarters of a billion people mobilising amongst the small producers and the most marginalized poor of the world deserves a serious journal dedicated to its management and business development.

A movement that combines this level of social relevence with some of the biggest agri-business, financial services business and retail business in the world is surely so unique as to offer a serious area for academic research and management consulting specialisation. Without a basis for publication much work in this sector remains invisible to the wider movement and to policy makers.

There has never been a time when the competitive pressure on national and small regional enterprises has been more intense. It is important that opportunities to discuss the challenges of the marketplace and to disseminate best practise exists for the co-operative sector. Whilst there are journals dealing with co-operative studies and development this is the first journal (in the English language at least) to focus on co-operative management and business. Management publications exist within the co-operative sector but they tend to be functionally as much as co-operatively oriented and lack the academic underpinning of peer refereed academic papers.

Secondly, mainstream management needs a critical voice that encourages business schools to engage more with the co-operative sector. Multinational corporations continue to grow ever bigger, increasing the concentration and polarisation of economic power. Big capital driven business dominants the global economy. Oligopoly does not optimise welfare. The economic success of the co-operative sector has therefore become even more critical for the integrity of an open market economy. We hope the presence of a journal such as this will encourage an increase in serious academic consideration of the co-operative sector within the mainstream management and business literature.

The unique structure of co-operatives has often been compromised over the last century by political interference in some regions and everywhere by the imperatives of growth in size and complexity. In a number of countries there has been a serious question mark over the future of the co-operative and mutual sector due to privatisation programmes. In the process of privatisation scant regard has been paid to the issue of maintaining real consumer choice provided through a pluralistic marketplace containing competing models of business ownership.

Thirdly, there is the question of developing a profession of co-operative management rather than discussing the management of co-operatives as simply a special case in the application of mainstream management theory. There needs to be a journal not only dedicated to the critical appraisal of modern management but one dedicated to the exploration of the issues raised by the idea of co-operative management as a professional practise.

Such a vocational focus does not involve the dropping of quantitative and scientific methodologies and up to date management frameworks. On the contrary it must be about applying them in human and creation centred ways to achieve the goals of distributive justice and sustainable development. Co-operative managers need to have the vocation and values to ensure that in the pursuit of these goals organisations strive to remain accountable and democratic not in terms of governance alone but at the even more critical level of organisational culture and stakeholder relationships.

This approach to co-operative management seeks to become not an alternative to mainstream management but rather a new critical voice within mainstream management. Today co-operation has become a word familiar in the mainstream: Relationship Management, TQM, Supply Chain Management, Stakeholder Management, Learning Organisation, Networking, Private Public Partnerships, Joint Ventures, HRM. These are just some of the developments in mainstream management creating a context where the language of co-operation is starting to emerge. It is an irony that at this precise time many co-operatives themselves should be so far behind in the application and adaptation of these modern management methodologies.

In many parts of the world the heavy hand of the state has only recently started to be restrained from a restrictive control on the co-operative sector. With the rapid deregulation and transition of economies co-operative managers must shake off the past, relearn the values of co-operation and find new ways to apply these values. The mainstream literature fully recognises the significance of values and culture in the management of organisations. Co-operative Values can also be effective as management tools to fulfil the purpose and destiny of the co-operative movement as a radical expression of people-centred business.

Co-operative Management must aspire to become the benchmark for the operation of the management function across all sectors today. This journal is dedicated to supporting this end.

The journal will only succeed in its mission, however, if it operates a totally open and pluralistic policy to the publication of research and opinion from all viewpoints on the co-operative movement both from within and without. Thus this journal must be founded on intellectual integrity, full discussion of all viewpoints, in the spirit of truth and fraternity. The editor welcomes scholarly contributions from all parts of the academy interested in the role of co-operatives and in their management and development, whether from the committed, the cautious or the critical.

Theme and content in this issue

The structure of the journal is to try to blend a variety of perspectives around a common theme. The theme of the first issue is the strategic problems facing co-operatives. The structure will be a led by a special Guest Paper followed by a second section given over to a series of Academic Refereed Papers from a diverse set of perspectives around the given theme. These academic papers will be mainly but not exclusively prepared from researchers and practitioners working within the movement to analyse current problems and challenges from the co-operative perspective and that of its environment. The third section Executive Reports will provide opportunities for co-operative CEOs to share their experience and viewpoint with readers reflecting in practise the theoretical themes of each particular journal issue.

In Research in Progress we have a section giving opportunities for academics, doctoral students and post doctoral research assistants to share their research and interim findings. This section is dedicated to provide ideas and establishing new networks and revitalisation of existing networks in the co-operative research community. We also shall have regular book reviews and hope to carry occasional significant law reports. Thus we welcome book reviews and dissertation abstracts on appropriate topics.

In future issues we shall have a section given over to comment and rejoinder concerning previous journal papers in order that ongoing academic and professional debate can be disseminated to a wider audience. We aim to encourage sympathetic people of reputation and experience from outsider the co-operative sector to give a fresh approach and insight into co-operative challenges. In approaching our opening theme of Strategic Challenges facing Co-operative Management we commence with a guest paper which provides a sympathetic but critical appraisal of co-operative options and seeks to establish a framework for strategic growth. In their paper Values and Their Impact on the Virtual Co-operative Prof Sam Natale and Dr Seb Sora suggest a developmental infrastructure which tries to ensure the active application of co-operation between co-operatives. Thinking outside the box or industry norm, thinking across silos rather than just within them, moving towards a more universal and comprehensive infrastructure for innovation and development. This is what the authors believe the co-operative sector needs. But Natale and Sora do not make their proposal to generate increased scale or uniformity but rather to ensure flexibility and creativity in co-operatives response to their competitive environment. The writers see co-operatives as structures with unique opportunities to develop strategies based on the needs of groups leading to the formation of special niches. Thus Natale and Sora suggest co-operatives can avoid cost driven standardisation. Co-operatives open up the prospect of negating the whole issue of market leverage and dominance by the big multinationals by creating a market so open to difference as to make scale less of an advantage.

To evolve such a virtual infrastructure will require a special type of manager sympathetic to the idea of collaboration within the Virtual Co-operative infrastructure linked by a particular value orientation and particular co-operative structure and purpose. The virtual co-operative is seen as a facilitator not an owner of autonomous co-operative enterprises. As such we wonder whether Natale and Sora have given us a clearer vision and a more relevant role model for the often rather tired and bureaucratic representational model adopted by the average co-operative Federal and Apex organisation?

In our three other academic papers concerning strategic challenges facing co-operatives we get a sense of the range of strategic issues co-operatives confront. The topics treat with globalization, governance and co-operative agriculture. The common thread that runs through their very separate and distinct perspectives is an institutional approach. Each paper also offers a focus on their issues at the strategic level from which co-operative management needs to reflect upon in their various trading contexts.

In contrast to the academic approach taken by the above papers are three executive reports. Two of them retail case studies of co-operative achievement in conditions of adversity and the third a sober and thoughtful analysis from the perspective of a successful financial services co-operative of the changing business environment the dynamics of which challenge even the strongest co-operative business to find ever more effective methods to compete in the future.

We carry a brief report from one of the co-operative movement's key stakeholder representatives, the National Association of Co-operative Officials, based in the UK, who are responding to the challenges of globalization and the need to develop and extend professional and representational structures for co-operative managers with an innovative global recruitment offer.

Finally, in addition to three book reviews, we carry a short report by co-operative doctoral researcher from Thailand Suparade Karalak reporting on her research to understand better the processes of psychometric testing and their potential for development to better serve the selection process for co-operative managers.

The editor welcomes comments and suggestions for future issues, papers, reports, research abstracts or reports, book reviews, and short responses to any of the materials (including the editorial) published by the journal. See notes for contributors for guidance.

Peter Davis, Editor
July 2003

Mission of the Journal

- ***To act as a medium for the dissemination of best management practise in the co-operative movement***
- ***To act as a medium for the publication and dissemination of research into the management of co-operatives***
- ***To act as a platform for informed debate within the co-operative sector on issues and problems arising from the management of co-operatives***
- ***To act as a vehicle for promoting the professional development and status of managers in the co-operative sector across the management profession as a whole.***
- ***To act as a medium for the discussion and dissemination of the latest thinking in all areas of management that may have a relevance to the practise of management in the co-operative sector.***

Values and their impact on the Virtual Co-operative

Prof. Samuel M. Natale and Dr Sebastian A. Sora

Abstract

The environment facing co-operatives today requires them to shed their often too narrow silo based focus and to network using the new technology to establish the Virtual Co-operative. By developing a strategy based upon niche market segmentation co-operatives can overcome the dominance in the marketplace of the large multinationals by dissolving the very concept of a mass market into geographical and special interest niches in which they have particular competences and other advantages. The Virtual Co-operative gives individual co-operatives the opportunity to lead with innovation to establish and maintain niche dominance and to give individual co-operatives the opportunities to obtain critical mass when this is advantageous. The defining element in the Virtual Co-operative itself will be the shared values, structures and purposes of its co-operative members. Thus the ethical exercise of power in the co-operatives and in the Virtual Co-operative will be judged by the members at both levels by the values, purposes and structures that unite and define them. The voluntary element embedded in the individual and Virtual Co-operative will make the quality of followership as critical as the quality of leadership in the management of innovation and the operational developments that this will call forth.

Key words

IT, management, market segmentation, networks, niches, silos, values, Virtual Co-operative.

Introduction

In his seminal paper, "Co-operative Management and Organizational Development for the Global Economy," Peter Davis identifies crucial environment changes that impact on changing issues in co-operatives. He lists 1) growing competition and the growth in size and concentration of capital-based businesses; 2) a tendency towards labor market de-regulation among OECD countries and former Communist States; 3) the crisis for the continued funding of State welfare provisions and OECD countries and former communist states; 4) the competitive pressures and lower labor costs of the newly industrializing nations; 5) demographic changes resulting in an aging population in some key global economies; 6) the decline and/or breakdown of community. (Peter Davis, 94).These changes taken together require a rethinking, or more accurately, an expansion of the co-operative model as it now stands. Currently various industries operate in separate silos generating their products/services amidst an increasingly complex environment.

This current status of co-operatives in their silo-based models suggests that a more comprehensive and universal infrastructure is needed. A potentially powerful infrastructure is emerging today as today creates tomorrow. By whom and to what purpose is the infrastructure being formed?

The infrastructure is one of technology and linkage. It is being formed by the universities and the various governmental and business organizations that require open or secure communication. Its purpose is clear, to link every individual in the world so as to enable understanding and growth. This infrastructure is both a great hope for humanity as well as opening the potential for misinformation and confusion. This tower will reach the heavens if we remember the goodness of its purpose.

Everyone needs to be involved in the development of this new infrastructure especially researchers, workers, educators, policy makes and even artists, in fact, all the stakeholders need to be represented. The dominating questions that need to be answered regarding the co-operative infrastructure include but are not limited to:

- Will the infrastructure provide a semi-permeable transmission conduit for values?
- Will the infrastructure meet the needs of all of the various silos?
- Will the infrastructure create a mechanism for addressing current and future concerns?
- Will the infrastructure provide a self-correcting mechanism?
- Will the infrastructure provide equitable growth policies?
- Will the infrastructure provide sustainability?
- Will the infrastructure provide trans-silo research that can be harvested?
- How will two way accesses (silo-infrastructure-silo) be guaranteed?

- How will the infrastructure deal with economic changes, developing cultures, security concerns, and environmental degradation?

This emerging infrastructure requires the development and education of a new kind of management, one that is value-based in an explicit way and one that appreciates the global and virtual nature of business and community in any enterprise. It requires a blending of rigorous managerial skills alongside an articulated and systemic model of co-operative governance that is in tune with the ongoing realities articulated above.

The creation of this infrastructure (senate?) involves reexamining the changing goals of the silo-based industries and the VANE (values, attitudes, needs and expectations) of the management system that handles it. What values are consistent with co-operative theory? Certainly, it would be a management based on cooperation rather than destructive competition; however, it must be a kind of co-operative model that understands the essentially competitive nature of the business enterprise.

Values form the culture, or if you would, the “personality” of a company/co-operative. They are the engine which drives the priorities as well as the entrance and exodus processes for members. In fact, the real values that govern any company are personal and individual. One cannot infer, in reality from articulated mission statements or company handbooks the reality of what is prized. Experience and trust are needed.

In order to determine what values need to govern any infrastructure, one needs to determine by both interview and analysis what is important to the members of the co-operative. If this is different than what is important to board members, and executives, a significant conflict will emerge and the co-operative silo will cease to be. Hence, a value-assessment is the first and necessary step in creating the Virtual Co-operative. The need to ascertain the lived-values (as opposed to articulated values) is a fact-based enterprise and not a blaming one. It will provide the database which will provide the entry point for change and conflict management. This is not to suggest that everyone must be homogenous in their worldview but it is to insist that the Person-Environment fit [P=f (E)] is sufficiently consistent to provide energy for forward movement rather than continuous conflict resolution.

One cannot separate values from motivation since it is our values that drive what we prioritize and focus on. One would assume that co-operatives would be driven by a different set of values than ordinary for-profit organizations or other not-for-profit structures or why should they exist at all? This assumption can be challenged in some aspects because it really is the desire of the co-operative to achieve market dominance where its members individually can not.

Psychology has taught us that values tend to cluster around three concepts: Persons, Things, or Cognition. That is to say, they are driven by different models of importance: If existence precedes essence, then people are most important; the reverse is true if things precede people; for many in academia there appears to be an affinity to disembodied thought and ideas though these must eventually submit to residing in an agent or object. These differences suggest that there is a significant managerial issue here and a daunting one at that. How would the Virtual Co-operative model help with this?

Further, it is imperative that in a co-operative there must be an Economic Value Add (EVA) (Frances, Reimers, 2002), to the act of forming the co-operative. The EVA cannot be realized when the very nature of a co-operative is in jeopardy because the members of the co-operative are de facto in competition. This competition is both within and across silos as one crosses national and geographic boundaries. It is our basic contention that the intra-cooperation of the co-operative can be improved by the inter-cooperation of the co-operatives. Further, this inter-cooperation can be created on a global basis to bring together within the co-operatives, far flung members that can then internationalize the real meaning of a co-operative for the greater good of humankind.

What we are suggesting is that a Virtual Co-operative be formed that is at first, national or regional and then extended globally. The Virtual Co-operative is connected via the WEB and communications are no longer tied to a particular time or place but to common interest and common needs. The Virtual Co-operative is across all co-operatives that wish to participate and serves as a gate keeper to all the co-operatives equally. An interesting thought that arises is that with such a virtual co-operative the silos will break down and enable great strides in efficiency and production. To make the most of the Virtual Co-operative a mind set has to be introduced. The very nature of the ‘virtual’ will make the organization everywhere and every time accessible. Individuals with the co-operatives can be in contact at any time for any issue at any place.

The mind set is that one is never alone, that there is always someone there to discuss, to help, to listen. This change in mind set will be the true EVA and primary driver for the establishment of the Virtual Co-operative. The key issues of such an infrastructure will be related to how well it supports specific co-operatives and enables cross co-operative activities. We believe that the value in such a Virtual Co-operative must be reflective of how it both enables the creation of an infrastructure and then supports change and growth.

The issue of infrastructure support

Infrastructure support is multifaceted. We must ask the questions from a value context.

1. Support for the transmission of values

Values are a function of organizational culture, which reside in the context of a regional culture, which in turn reside within a geographic culture. It is our contention that the success of an organizational culture is predicated on the organizations business success. That is to say that an organizational culture – read values- is NOT successful if it is not successful in the business sense. The overlay of a virtual co-operative will act to transmit values across the co-operative spectrum. Those values that contribute to success will be seen as not only important for a specific business but also allow for thoughtful consideration of those values within the context of other regional or geographic cultures.

Values that support concepts like ‘respect for the individual’ tend to be invariant across cultures whereas values like ‘sustainable competitive advantage’ are not invariant. Such competitive advantage tends to be regionally or geographically specific. One can consider here the issues of internal value creation (Frigo, 2002) which can be maximized and shared through the Virtual Cooperative. The Virtual Co-operative is the only way to advance these considerations. The Virtual Co-operative is the only way to tailor organizational values to the variant regional or geographic cultures. The Virtual Co-operative is designed to share methodologies for internal value creation. In a business the sustainable competitive advantage will be its global sources of information, tailoring it to the needs and requirements of the various co-operatives. An example of this value is the potential for making available unique market information necessary for the sale of niche products in distant areas of the globe. This data could not be easily attainable without the support of the described Virtual Co-operative.

2. Support for needs management

“Co-operatives are essentially associations that give market leverage to those who would otherwise lack such leverage” (Davis & Donaldson, 1998). This definition, however, is taken within the context of an alternate to market domination. We think that this is an appropriate view when one looks at a co-operative as made up of non dominant forces. It is a counter movement to the dominant players in the business domain. However, for the concept of co-operatives to advance, the playing field must be leveled not from within these co-operative silos but by crossing the activities of the silos. Once this is done, market dominance does not become the issue, but what happens is niche dominance. In reality as long as there are customers there are buyers and all buyers have different and idiosyncratic needs. The co-operative allows for new forms or businesses – not mass standardization (which in reality the human condition abhors) but unique forms of niche standardization. Given this the whole issue of market dominance becomes less important while the needs of groups of humanity become of paramount importance.

This concept of ‘niche’ dominance is intriguing because it cuts the pie of market domination into littler pieces. The co-operative now is not in direct competition but is focused on growth within a smaller domain across multiple regional and geographical areas. To do this, the niche needs have to be explored. The Virtual Co-operative is the best engine to do this. Within this co-operative we are concerned with each member obtaining leverage within a niche whose growth can only contribute to the growth of the other niches without the specter of market domination. Each member would want to assist in the management of needs because such management development can only help and not hinder any individual member of the co-operative.

The Virtual Co-operative lies at the heart of members sharing within a co-operative and creating alliance across co-operatives by understanding the needs both within the co-operative and without the co-operatives. The Virtual Co-operative in its success creates the ‘organic co-operative’ analogous to St. Paul’s image of the One Body: “Bonded and knit together by every constituent joint, the whole frame grows through the due activity of each part, and builds itself up…” (Ephesians 4:15-16, NEB). Here members of the co-operatives will understand that the health of each brings health to all, and the damaging effects of competition are eliminated while the positive effects of competition are maintained in a co-operative setting. This co-operative setting allows for management of specific and general needs; for the airing of issues regarding needs, and finally for the solving of problems in ways that minimize needs.

An important issue in all communication is 'trust'. Individuals from different cultures vary in terms of their communication and group behaviors including the motivation to seek and disclose individuating information and in the need to engage in self categorization (Gudykunst, 1997). However it is also clear that common interests enable communication even though studies indicate that in individualistic cultures, the needs, values, and goals of the individual take precedence over the needs, values, and goals of the in-group (co-operative). In collectivist cultures, the needs, values, and goals of the in-group (co-operative) take precedence over the needs, values, and goals of the individual (Gudykunst, 1997; Hofstede, 1980).

It is our view that the Virtual Co-operative remains a non threatening method to understand needs within the context of a specific silo, but more importantly to change the concept of market dominance which can stifle market growth and advancement into a confederation of niche players where the winner is not only these players but all stakeholders.

3. Managing the future

The future always remains an unknown and the best plans get hi-jacked by time and circumstance. Planning remains the most important management function. Strategic and tactical planning does not always have to be at the expense of eliminating competition (though there will always be the need to do so) but can be directed at growth and invention in a co-operative manner. Managing the future is one of addressing current and future concerns. It is our contention that co-operatives eventually fall apart because of concerns that disrupt communication and unity. The Virtual Cooperate minimizes the concern of unity in that unity can 'never' really exist in a free market economy. Regions have laws against such 'unity'. Cartels, price fixing, and other like actions are considered issues that restrain trade and penalize customers. These become the regional issues but will have a negative effect on co-operatives. By eliminating this whole concept of market unity we have removed one of the prime issues as to why co-operatives fail and seldom ever achieve market dominance. It is our contention that successful co-operatives have to be politically neutral and legally acceptable.

Thus, the strength of the Virtual Co-operative is in its ability to enhance, initiate, and enable discussion of current and future concerns at the individual level as well as the more global level of common concerns. The Virtual Co-operative will support the concept of the 'virtual work room' tied to a discussion database, where individuals can begin and end discussion threads over particular concerns. We envision such a discussion thread be managed by the Virtual Co-operative to assure closure of these concerns. We also envision that 'alerts' or other geopolitical issues that can affect the co-operative will be put forth by the Virtual Co-operative. This will initiate the discussion of concerns and enable the members of the co-operative to mull over and make their thoughts known and shared with other members.

While this process provides a different 'normative' view of planning both strategically and tactically it need not change the model of ownership for members of a co-operative.

We don't agree that "the objectives of business must change" (Davis, 1995). The objectives can remain the same and be variant within and outside of a co-operative. In fact we believe that forcing a co-operative to be "socialistic" in its activities dooms it very ability to succeed in the global context. This is not to say that we should exclude the socialistic forms but we should not eliminate the capitalistic forms or the communistic. In reality the co-operative does not have to depend on a specific ideology. The primary driver of any co-operative must be for the good or the welfare of humanity while in keeping with the cultural or governmental forms of the region or geography.

In managing the future, diversity is a requirement for the survival of all co-operatives. Diversity creates powerful forces which will not create fragmentation (Davis 1995) in the presence of the Virtual Co-operative. Diversity will create fragmentation only if a method does not exist to communicate and accept differences – differences in the way a business is run, differences in the way a business charts its future, differences in objectives, differences in native ability, differences in ownership, and differences in perception. In reality the concept of 'approval' is not sought after in this new co-operative. It may become an issue and when it does, fragmentation will be divisive.

Current and future concerns across co-operatives are going to be more complex than within a co-operative. Here hopefully the importance of Value Chain Management in business (co-operative) to business (co-operative) applications (Craig, 2000) within a niche will be an important area of discussion within the Virtual Co-operative. In fact issues of supply chain and value chain will become separated. The supply chain will address areas of efficiency and the value chain areas of creativity. We foresee the Virtual Co-operative leveling these issues quickly so that concerns are openly discussed and solutions understood if not accepted.

4. Sustainability and self correction

The Virtual Co-operative through the mechanism of an organic organizational structure will sustain the co-operatives but not stagnate them. Change is important for growth. We believe that the co-operatives contained within the Virtual Co-operative will have change as an important feature of their organizational values. Change is induced by new ideas and the sole purpose of the Virtual Co-operative is to be a mill of new ideas. Since competition is reduced and each co-operative is in actuality a dominant force within a niche, members of a co-operative that do not implement change as one of their primary values will be superceded by other members of the co-operative. So while the co-operative will be sustained via the Virtual Co-operative, the individual members may not be if in fact they choose not to be aggressive, creative and have the ability to change.

Sustainability is part of change management. The value of change must always be measured on an individual basis; but this value to change within a niche that is within a co-operative becomes a management plan activity. Management must be aware of performance measures that are unique to itself irrespective of the size of the firm and those who heavily use the Virtual Co-operative should be well situated in understanding and implementing change for the betterment of both the member and the co-operative. However, if the management of a specific firm chooses not to do, or to do, this is NOT a concern of members of the co-operative. It is our contention that any member of a co-operative has the freedom to fail without affecting the co-operative. The co-operative will not fail unless the members want it so; but the Virtual Co-operative cannot fail because it extends past the boundary of any one co-operative. This is the strength of the Virtual Co-operative, to be ever present and ever available.

Sustainability must always remain a function of management action. Poor management actions should have a negative effect, and good management actions should have a positive effect; the responsibility for these activities must remain with a firm's management. Errors in judgment and associated risks of poor management actions should be minimized by the self correcting effect of the Virtual Co-operative. If management can ask questions and have discussion with other interested management not directly related to the problems at hand, then errors can be self corrected, via access to the Virtual Co-operative.

Experiences can be shared, ideas tested, and information analyzed and digested by management before they take any actions. These activities will serve to reduce risk, improve efficient growth, and train managers to become better through the resultant experiential learning.

5. The business environment

The business environment is both external and internal. We hope that the internal environments remain unique and successful within the context of the regional and global culture in which a business operates. The main thrust of the Virtual Co-operative will not be in a member's internal environment except as it relates to discussion of specific internal issues that the members want to discuss. These types of discussion will be member initiated, in the resultant discussion databases and communications. It is the external business environment in which the Virtual Co-operative will find its own niche.

The external business environment will contain threats and opportunities to individual businesses, co-operatives as a whole, and finally the entire spectrum of co-operatives.

Our model is one of niche companies acting as a whole to affect an entire market so that market dominance is no longer 'one company' but many companies – a confederation of niches. Given this, the Virtual Co-operative will be the only vehicle for sharing external business environment information. It will be the only vehicle to proactively go out and get new information that will have an effect on some or all in the co-operatives.

Research will be initiated by the Virtual Co-operative, alliances with Universities and Governments will be managed through the Virtual Co-operative. Where one member of a co-operative or a whole co-operative could not afford expenditures for these activities, the Virtual Co-operative will. Topics will be pursued at the request of co-operative members. We see the Virtual Co-operative making new inventions everywhere available to enable everyone's success. Value will be created by the Virtual Co-operative and the sharing of this value creation will permit growth within the niches and across the niches.

It is our belief that all knowledge is connected and what has slowed the growth of knowledge has been the proprietary nature of information and the desire to test the boundaries. While we believe that proprietary nature of information is important to maintain, for example the secret to Coke Cola, this in no way changes the fact that sometimes the resources do not exist to test the boundaries. The Virtual Co-operative will have the support to do just this. How that information is then used is a function of each management chain, each firm, and each co-operative. The Virtual Co-operative thus becomes the tool for management of the external environment, and making the results of that management available.

For the Virtual Co-operative to be successful all members within the business area who are in a co-operative must feel part of the Virtual Co-operative – this includes management, and employees. The Virtual Co-operative must cross national boundaries and governments. This should not be a political issue since it is not a competitive or political organization. It is simply a Communication Co-operative, with assets to stimulate learning, stimulate growth, and stimulate creativity and invention. It can represent a way for developing countries to take a jump up the economic ladder through the process of mentoring. Co-operatives in one geography can mentor similar co-operatives in other geographies. Co-operatives can form alliances based on needs for raw material and other factors of production. Co-operatives will be able to share values across geographic boundaries and enable developing countries to develop more quickly.

We cannot say often enough that the Virtual Co-operative is not meant to supplant the management of individual co-operatives or firms, it is meant to augment, to enhance, and to foster a new meaning to what is meant by the market. In this information age it can help to create a spirit of global cooperation within the context of individual freedoms and must be invariant as to its acceptance by variant governmental forms.

The form of the Virtual Co-operative

We have discussed what the Virtual Co-operative can bring to the whole concept of co-operatives. It can actualize the success of co-operatives so that they no longer are seeking relationships so as to survive within a market but seek relationships to grow individually in the market. The essence of how to accomplish this is simply to overlay the virtual co-operative over individual co-operatives as they exist today. Once this overlay is made, then the co-operatives on which it is overlaid are interconnected and receive the benefits discussed.

Where does this virtual co-operative exist? It exists within a Global Web. It becomes that central focus of all independent co-operatives. It is funded by the co-operatives and is in fact a co-operative. Its existence creates an organic model of co-operatives since each co-operative is independent, but yet understands its value within the global context. If co-operatives were originally formed to balance the power of dominance within the market, now they are formed to create niches of their own dominance. With this new co-operative organization, there is in fact less value to the old global corporations. It is now possible to decentralize, reorganize, and achieve greater levels of growth and creativity then before.

In summary, the Virtual Co-operative is the mind of all the traditional co-operatives. It is the source of answers that could not be gotten with out great expense to each co-operative, it is the source of information because of the capability of sharing ideas and discussing plans, and finally it is a source of business support that stretches beyond the traditional co-operative, where operations can be tested to reduce risk and increase benefits to each member of every co-operative.

A Co-operative scenario

All co-operatives are of their very nature associative in nature. The purpose is specifically to increase market ownership of the co-operative so as to enable its members to effectively compete against non members or dominant businesses in the business space of the co-operative. The underlying assumption here does not create a new idea about ‘market dominance’ because the market is seen to be a single space. The underlying drive is for power. And power, governance and leadership are simultaneous subjects that may not be separated in application.

At www.angelfire.com/md/imsystem/siabuse.html power is defined as “decisively influencing the reality of others.” This definition makes followership and ethics imperative to any discussion of leadership. This site also points out that the “main principle of human ethics and morality should be to avoid the abuse of power.” It is an unjustifiable use or abuse of power to cause harm or exploit others. Given the definition of power and our assertion that leadership is about power, then leadership must be about the acceptable uses of power. And the acceptable uses of power are defined culturally, morally and ethically. We believe that it is only in the context of taking, assuming, being given, and exercising power that we can explore the concept of whether acts of leadership or the leader him/herself are moral or ethical. (Natale, Perry, Sora, Chemes, 2002)

Given this view the Virtual Co-operative becomes a mega co-operative that binds individual co-operatives. Each co-operative is a member of the Virtual Co-operative. In this virtual space, linked as a network, the member co-operative maintain independence but are now able to cross link to other co-operatives on a continuing basis, to not only to increase dominance in national market but international and global as well. The virtual space will enable linkages to complementary products that will widen the product scope of all co-operatives. In the case of a farmers co-operative in the United Kingdom, it can link to a farmers co-operative in the United States and cross sell products without belonging to a large international company. Artist co-operatives can globally link to exchange ideas on new techniques, metal smiths can do the same and produce products for other regions based on regional interests. Additional characteristics of the Virtual Co-operative will enable bidding on government/international contracts because co-operatives can link and gain the power of any global company.

The essence of the Virtual Co-operative is availability and the forging of relationships, while maintaining independence within a region or a geography. We believe that the Virtual Co-operative has the power to change the definition of 'market dominance'. Market dominance is only possible when we think of the market as a single space. Cut that space up into niches and we create the capability of niche dominance. The niches, however, have to be linked to piece together the 'quilt' of this new market place, and this is the function of the Virtual Co-operative. In this case niches will be regional with linked regional co-operatives but then cross linked to other regional co-operatives as well as complementary co-operatives. We believe that in the 'global context' the old definition of market dominance will cease, and the new definition of a quilt of niches will create a superior market for the service of all humanity.

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Challenges for agricultural co-operatives in the European Union: the case of the Spanish agricultural co-operatives

By Prof. Juan F. Julia Igual and Elena Melia Marti

Abstract

The agricultural co-operative system plays an important role in Spain and Europe, it represents an important part of the agricultural sector. However, the current agriculture situation forces them to change their traditional management systems. Issues such as agricultural surpluses, less protectionism in the CAP, the loss of agricultural turnovers, the great concentration of the agrifood distribution companies, the increasing concern for environmental issues and food health, the increasing consumption of "processed products", etc., generate new challenges for co-operatives.

Consequently, co-operatives must promote more efficiently new ways of producing, looking for quality and respect to the environment, but at the same time trying to meet the new demands of consumers.

Key words

Agriculture, Co-operative, Consumer, European Union, Management, Supply Chain

1. Introduction

Agricultural Associations present a long tradition in Spain. At the beginning of the 20th century, they were present in many important sectors, with the Agricultural Catholic Unions.

During the period previous to our civil war, the agricultural association movement created several regional and national organisations. Later, the movement was mainly based on co-operatives and on the so called colonisation union groups, which subsequently gave rise to the Agricultural Processing Societies (APS).

Co-operatives, which constitute the most highly developed associative form, had in the eighties some regulations which strongly contributed to restructure the agrifood sector and to create representative organisations, through the Co-operative Territorial Unions (UTECO) and the National Co-operative Union; their social evolution was important, since in the seventies, most farmers were associated to co-operative societies. At the same time, from a managerial point of view, it was not a developed co-operative system. This becomes evident from their limited financial size relative to the Spanish economy of those years, and in comparison with the share capital of other European agricultural co-operatives .

This situation changed in the eighties as Spanish agricultural co-operatives became a significant force as a consequence of their approach to the European agriculture managerial reality and due to two institutional factors.

First during this decade the regulations for Spanish co-operatives changed with the new General Law of Co-operatives, in 1987, and the introduction of other laws of co-operatives in five Autonomous Communities (Euskadi in 1982, Cataluña in 1983, Andalucía in 1985, Comunidad Valenciana in 1985 and Navarra in 1989). All these laws emphasised the managerial development of the co-operative society.

Secondly, the incorporation of Spain to the European Economic Community (EEC) at that time, supported by the adoption of a series of regulations, within the frame of the Common Agricultural Policy (CAP), particularly the regulations for Producer Organisations (PO), caused further modification of the Spanish regulations.

In Spain, as in Europe, most producer organisations are set up as co-operatives . The attributions that some of these organisations have with regard to market regulation constitutes undoubtedly the greater incentive for their managerial development. As an example, by 1.035/ 72 Regulation, the Fruit and Vegetables Producer Organisations (O.P.F.H.) have the faculty of drawing back products through the so called "taking of calendars".

Citriculture organisations are paradigmatic in this subject; with a market share of about 10% in the seventies and 28% in the eighties, which rose to 40% by the end of the nineties. This fact was already presaged years ago by some authors, but in the seventies and eighties such figures seemed unreachable. On the other hand, our incorporation to the European agriculture market also encouraged the development of our commercial and productive structures to match the rest of the EEC countries. This change has taken place in the last two decades, with a high impact on the commercial sphere (co-operative organisations have experienced a dramatic growth in the market share), and they have also developed grouping processes, especially from the end of the eighties and during the last decade.

Chart 1
Production sold in Spain through co-operatives (%)

	Fruit	Vegetables	Cereals	Milk
1986	26	12	10	10
1992	32	15	17	16
1996	45	15	20	27
1999	45 (citrus fruit)			
	35 (other fruit)	15	35	45*

*25 % of processed products.
Source: "La situación de la agricultura en la Unión Europea" European Commission. Reports from 1987 to 1998 and "Informe de la Confederación de Cooperativas Agrarias Españolas (CCAE)"

2. The agricultural co-operative system in Spain

The Spanish agricultural co-operative system plays an important role today, not only social, but also economic, since it has experienced an important managerial development, as mentioned above. More than one million farmers are partners of some of the approximately 4,000 existing co-operatives, which means that most farm owners in Spain are co-operative partners, and about 30% of the final agricultural production is marketed through these organisations, whose sales have grown up to a total of 1.7 billion pesetas, in recent years.

These facts have taken place, as in the rest of the European countries, in a context of progressive reduction in the number of co-operatives as a consequence of different types of concentration and integration processes, which resulted in a greater presence in their markets due to their bigger entrepreneurial size, and a greater facility for competition. The last figures of the sector (Chart nº2), show these facts, in terms of growing turnovers, an increasing number of partners, and a reduction in the number of co-operatives.

Chart 2
Number of co-operatives, number of partners and co-operatives business volume in Spain

	1997	1998	1999
Number of co-operatives	4.283	3.930	3.915
Number of partners	1.093.000	1.120.000	1.098.089
Turnovers (million pesetas)	1.304.584	1.495.001	1.700.238

Source: Informe económico del cooperativismo agrario en 1999. Confederación de Cooperativas Agrarias de España; MONTERO, A. 1999. El cooperativismo agrario y formas de integración. Ministerio de Agricultura, Pesca y Alimentación.

It can be stated therefore that an important part of the agricultural sector in Spain is represented by co-operatives, presenting similar strengths and deficiencies. Particularly, the agricultural sector presents a smaller company size, with the need of important technological development in several sub-sectors, and with a lack of concentration and integration. At the same time, it deserves recognition for its leadership in some sub-sectors, as a consequence of the quality of their products and power of response to the demands of the big food distribution operators. This is the case of citrus fruits and, with less importance, the case of wine and oil.

3. The agricultural co-operative system in the European context

The agricultural co-operative system has a great importance within European agriculture, since it represents more than 60% of the agro-food offer. As a result, it is considered as an critical element in the CAP development, as its main representative organisation, COGECA, has shown on many occasions. Nevertheless, the reality of the agricultural co-operative system in the member countries, in spite of presenting similar characteristics, also shows important differences. Thus, from a legal and organisational point of view, the different member countries have adopted diverse models.

With regard to regulations in the EU, there are three different models (chart nº3):

- Some countries have endowed co-operatives with widespread regulations, in addition to their own specific laws, such as Germany, France, Spain, Greece, Finland, Italy, Austria, Luxembourg, Portugal, Sweden. In some of them, the regulations have even been complemented with special laws for agricultural co-operatives, like France and Greece.
- A second model is adopted by countries such as Holland and Belgium, whose co-operative system also enjoys special regulations, but within the frame of other general laws.
- There is a third group of countries, in which co-operatives do not have a specific regulation, it being regulated by the Company Laws. This is the case of the United Kingdom, Denmark and Ireland.

As for the organisational models, we also find considerable diversity. So, there are countries with complex and widespread organisations, representative of co-operatives, such as territorial organisations (Regional Confederations), organisations related to particular sectors (Fruit and Vegetables Producer Confederations, etc.), or organisations with a great inter-sectorial development. Beyond any doubt, the member country that best represents this complex model is France, which has a very solid co-operative system, from an entrepreneurial point of view, with a very well organised structure. The territorial model has prevailed in most of the countries were regions and communities have political importance, such as Spain, Germany or Belgium, while in other countries such as Holland and Ireland, the different sectors representation is by group of products.

In some countries, the affiliation or ideological and confessional closeness has also created another form of organisational grouping, such as the Italian and Belgian cases. With regard to economic development, there are also noticeable differences between countries. This can be observed through the importance of the agricultural co-operative system in some sectors where the greater the economic development, the higher the number of medium-sized managerial organisations.

Chart 3
Legal regulations and organisational model of co-operatives

	Legal regulations	Organisational model
Belgium	Co-operative societies regulation included in Trade Code (I Book, IX Title, VII Section, Art. 141-164)	Territorial and confessional ideology. (Boerenbond: Christian association whose partners are individual farmers and rural families, and works in Flemish and German-speaking zone in Belgium)
Denmark	There is no specific legislation for co-operatives.	Territorial They are governed according to their statutes. (Danish Confederation of co-operatives: its partners are agricultural co-operatives, service co-operatives and insurance and credit ones).
Germany	1989 Co-operatives Law, modified by 1990 Co-operatives Law.	Territorial National Confederation of Co-operative and Raiffeisen (DGRV), which includes: - National Federation of credit co-operatives (BVR). - National Federation of small size industry (ZGV). - Central Federation of service and goods co-operatives (DRV)
Greece	1541/85 Co-operatives Law.	Territorial. Pan-Helenic Federation of Agrarian Co-operative Unions (PA.S.E.GE.S.)
Spain	Law 27/99, about Co-operatives and Autonomous Communities Laws	Territorial (Confederation of Spanish Agricultural Co-operatives, which represents co-operatives, Confederations and Territorial Unions)
France	Law 1947 relative to co-operatives statutes. Law of 1867 relative to variable capital societies. Law of 1972 relative to agricultural co-operatives (1981 Rural Code) Law of 1992 relative to modernisation of co-operative companies. Other laws, related to particular sectors.	Territorial and related to particular sectors. French Confederation of the Agricultural Co-operation (CFCA). It includes: - National Confederations (they represent co-operatives of each agrofood sector). - National Confederations (they represent co-operatives of each agrofood sector). - Regional Confederations. - Regional Confederations. - The biggest co-operatives.
Ireland	There is no specific legislation for co-operatives. They are governed according to 1983 Law of Companies and Mutual Societies, reformed in 1978.	Territorial. Irish Co-operative Organisation Society (ICOS), made up by agricultural, fishing and other rural activities co-operatives.
Italy	Legal base in the Constitution, art. 45. Specific regulations about co-operatives in the Civil Code (Art. 2511-2545, Title VI, Book V). Law 59/92 about co-operatives.	Territorial and confessional ideology. - National Confederation of Agricultural Co-operatives. - National Association of Agricultural Co-operatives - Italian Association of Agricultural and Industrial Co-operatives. - National Union of Italian Co-operatives.
Luxembourg	Decree of 17/09/45, amended by Law of 25/08/86 (agricultural co-operatives). Law 10/08/50	Data not available.

Holland	Legislation about associations is available for co-operatives, with some conditions and specific norms. (Civil Code, Volume 2).	Territorial. National Council of Agrarian and Horticultural Co-operatives (NCR). Central co-operatives and Agricultural Unions are members.
Austria	Law of 1873 about co-operatives, amended in 1920, 1934, 1936, 1974 1982. Law about auditing.	Territorial and related to particular sectors. Raiffeisen. They represent all the co-operatives. Their members are horizontal organisations related to sectors or regions, national horizontal organisations, second- order co-operatives, and other members.
Portugal	Legal base in the Constitution. Also: - The National Assembly Law for co-operatives 51/ 96, in the Co-operative Code (1.996) - Government Law 394/ 82 (for agricultural co-operatives)	Territorial and related to particular sectors. Confagri National Confederation of Portuguese Agricultural Co-operatives. It represents Unions, co-operatives and farmers.
Finland	Law about co-operatives of 1954, amended in 1989.	Territorial. Finlands Svenska Andelsforbund. Central Organisation of Co-operatives. It includes all agricultural co-operatives.
Sweden	There is a Swedish Law for Co-operatives.	Territorial. Confederation of Swedish Farmers (LRF).
United Kingdom	There is no specific legislation for agricultural co-operatives. They are governed according to: - Law about Associations related to sectors and benevolence. - Law about companies.	Territorial. Confederation of Agricultural Co-operatives (FAC). It represents the interests of the agricultural co-operatives and other organisations that are controlled by producers.

Source: "El desarrollo de las cooperativas agrícolas en la Unión Europea. Tendencias y temas a la víspera del siglo XXI." COGECA. July, 1997

As a result, the wide implementation and importance of French co-operatives, in sectors such as cereals and milk, can be explained through the important evolution that they have had as companies. Therefore, they have developed significant grouping and integration processes, creating groups well located in the agro-food chain, that have become leaders in some sub-sectors. As an example, the case of SODIAL (first French co-operative group), Socopa, UNCAA or GRAY-HEADED. In Holland, the situation of co-operatives and their evolution is similar. Therefore, through intense concentration processes a strong co-operative sector has consolidated, especially in dairy products, cut flower and fruit and vegetables. Also in Denmark, especially in the pork meat sub-sector, where the superiority of this co-operative sector is absolute, since four co-operative organisations (slaughterhouses) control more than 95% of the market.

The European co-operative systems growth and importance is the consequence of its managerial evolution, mainly through grouping processes, with the creation of co-operative groups, through second-order co-operatives, by means of coalitions, or by means of a type of holding company. All these different structures have led co-operatives to be much more competitive. However, the most important reason has probably been the recognition of agricultural co-operatives as the managerial formula that presents more harmony with the new requirements of the agricultural policies, thus encouraging farmers to make their own future through involving their institutions as instruments for social and economic action.

Thereby, although the agricultural co-operative system has not experienced as much development in all the European countries, it is a constant feature in all of them with important growth in the last years. In many sub-sectors, such as milk, fruit and vegetables, cereals and some meats, it maintains a very significant presence.

4. Challenges of the agricultural co-operative system

There are a number of challenges facing the agricultural co-operatives in the 21st century within the Spanish and European agriculture in general. The current reality raises new problems in the agricultural co-operative system and the identification of answers is a pressing one if the agricultural co-operatives are to continue their development and the small to medium farm and farmers life style is to be preserved.

Nowadays, agriculture produces surpluses (definitively of a structural nature), and there is an increasing competitiveness from the developing countries, favoured by a context of the global and open economy. Moreover, a CAP reformation, of a less protective nature, has been promoted by some international pro-liberalisation agreements. These pressures have invariably produced a loss of the agricultural turnovers in recent years, which has

Chart 4
Statistics of co-operatives in the European Union

Nº of co-operatives, Nº of partners and turnovers | Co-operatives turnovers in the different sectors (1998)

	Nº of co-operatives	Nº of partners	Turnovers[1]	Turnovers/ co-operative[2]	Turnovers/ partner[3]		Fruit and vegetables	Meat	Input	Cereals/ Seeds
Austria (98)	1.074	-	-	-	-	94	-	20	-	65
Belgium (99)	300	50.000	3,00	10.000	60,0	50	72	20	40	-
Denmark (99)	18	95.200	11,65	647.222	122,4	95	20	89	57	-
Germany (99) (members 98)	4.044	2.957.000	37,90	9.372	-	70	40	30	50	-
Greece (98)	6.330	738.600	1, 05	165,8	1,42	35-50	50	5-30	-	49
Finland (98)	69	234.000	8,50	123.188	36,3	96	-	69	41	-
France (99)	3.700	1.100.000	64,00	17.297	58,2	49	35-50*	34	45-60	74
Ireland (98)	122	185.600	11,30	92.623	60,9	97	-	70	65	69*
Italy (98)	6.486	898.800	16,96	2.615	18,9	38*	41*	10-15*	15*	15*
Luxembourg (99)	9	-	0,23	25.333	-	80**	-	25-30*	75-95**	75**
Holland (98)	115	256.800	22,74	197.739	88,6	82	70-96*	35	54	-
Portugal (98)	1.072	588.000	0,867	809.608	1.476,0	82	45	-	-	-
Spain (00)	3.902	983.210	10,85	2.781	11,0	40	15-45	25-35	70	35
Sweden (99)	53	300.000	10,00	188.679	33,3	95	60*	40	75*	75*
RU. Kingdom(99)	565	241.000	12,38	21.910	51,4	55**	25-40**	10-25**	30**	25**
TOTAL	**26.785**	**8.628.210**	**211**	**7.858**	**24,4**					

[1] Thousand million Euros [2] Thousand Euros / co-operative [3] Thousand Euros / partner
* 1996 data ** 1999 data
Source: "El desarrollo de las cooperativas agrícolas en la Unión Europea. Tendencias y temas a la víspera del siglo XXI", COGECA. July 1997; "La situación de la agricultura en la Unión Europea. Informe 1998", European Commission and "La cooperación agraria en la Unión Europea. Tendencias y temas de actualidad", COGECA, December, 2000

already been accompanied by the downward tendency in agricultural prices.

The European agriculture productive model is heterogeneous, countries with a high productive efficiency in terms of Gross Value Added to market prices (GVA)/farm, such as Holland, Denmark, United Kingdom and Belgium coexisting with countries whose rates are much lower than the Community average in the Mediterranean countries. These countries have a uniform agricultural production, from a territorial point of view; but, on the other hand, it is not as efficient as it should be, which causes the need of a wider scope of the structure policy within the CAP.

Moreover, in terms of the support given to the different sectors, the CAP has shown preference to continental products in comparison to the Mediterranean products. Thus, the equivalent of producer subsidy (EPS) as a percentage of the VAB to market prices in products like milk is estimated in about 90%, in cereals and oleaginous plants about 60% and 70% respectively, and in some meats like bovine above 100%, in contrast to other products like fruits with 10%, vegetables 20%, olive oil with 33%, or lamb with 13%, which places Mediterranean countries agriculture in a much more unfavourable position.

On the other hand, in recent years important changes have taken place in the agricultural demand. Firstly, the solid merging of food distribution companies easily identified by the fact that in many European countries, the first five distribution companies control more than 60% of the market, as seen on Chart Nº 6. This places them at a very favourable position in the market negotiations. The agricultural offer, although it has also had an important concentration, is not as well organised.

This invariably leads to a growing subordination of producers to the ever-growing requirements of distribution,

Chart 5
Evolution of producers prices of agricultural products in the EU (deflated)

Year	Index
1990	100.0
1991	97.2
1992	89.4
1993	84.6
1994	84.8
1995	85.2
1996	83.0
1997	80.0
1998	76.6
1999	72.8
2000	74.0

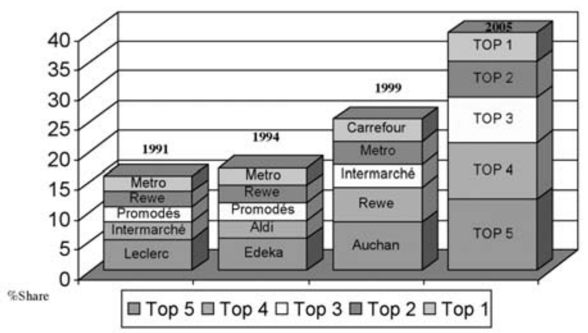
Excluding VAT
Source: European Commission, 2002

Chart 6
Value weight of the sales of the largest companies in highly consumed goods (1999)

Top 5	Top 10	Countries
> 70%	> 90%	Finland, Sweden, Austria, Denmark, Holland, Germany.
50 – 70%	70 – 90%	United Kingdom, France, Belgium, Portugal, Ireland.
30 – 50%	60 – 70%	Spain, Greece, Italy.

Source: Langreo, A., 2002, from ALIMARKET whilst the latter face increasing competition in price and range from their competitors. On the other hand, the prospects of producers do not improve if we take into account that the concentration processes of these companies (mergers, take-overs, partnerships, etc…) are expected to increase. Thus, as can be observed in fig. 1, in contrast with 1991, when the main 5 European distribution companies were responsible for 15.8 % of sales, they may go on to control 40 % of sales by 2005.

Figure 1
Concentration of European distribution: evolution of the Top 5



Source: Planells J.M. and Mir J., 2002, from M+M EURODATA 2002

Another factor to be considered is the evolution of consumer tastes, as far as it has been the cause of many of the decisions taken by distributors, and which invariably affect agricultural producers. Indeed, factors such as the entrance of women within the work market, the existence of ever more frequent one-member families, the disappearance of family meals (each member eats at different hours), or the increase in eating out, have caused the increase of phenomena such as "snacking", as well as the consumption of "service food", that is, those products which need little preparation, and specially pre-cooked dishes. Thus, the results published by the Ministry of Agriculture, Fishing and Food (MAPA, 2000), from a study carried out on a sample of representative Spanish families, show that these are the products which have had a greatest increase in consumption in the period of 1994-1999. The increase has been of 15.4%.

Another demand aspect that needs to be taken into account is the important growth of "processed products"; the fruits case, in particular citrus fruits, is a good example, since the increasing consumption has been mainly due to the increase in the consumption of processed products (juices), resulting in a greater interest in agro-industrial integration and development.

A last factor to consider, as important as the others, is the increasing concern for environmental issues and food health, both of them included in the 2000 Agenda. The new CAP expresses clearly its desire for a much more sensative agriculture both towards the environment and greater food safety guarantees for consumers giving priority to this kind of agriculture in terms of institutional supports in the different regulations.

The market is also showing a greater concern for environmental and food safety issues. The organic or biological agriculture is having an important growth, and although its significance is still marginal, consumers seem to appreciate such agricultural practices, differentiating these products, in terms of price. This fact is shown in studies which in some cases point to a segment of more than 55% of the consumers willing to pay 20% more for this type of products. On the other hand, paradoxically more than half of the organic production is marketed as produced from conventional agriculture; the lack of own distribution channels and lack of interest by the big retailers creates a significant barrier to growth.

In view of this situation, the new challenges of the co-operative system can be summarised as follows. Co-operative organisations, through their members, should be the ones that promote a commitment to a new form of producing more efficiently, looking for quality and respect to the environment, but at the same time trying to meet the new demands of consumers. In the case of the Spanish agricultural co-operatives, with a clear problem of structure in their productive model, they should try to transfer technology and moreover, encourage processes that involve cost reduction, through the depreciation of input acquisition, rationalisation of the resources, appropriate technical assistance and shared use of some resources (equipment, machinery, watering, etc.)

The new forms of agriculture, with commercial channels still not very well developed, and at the same time with a scarce productive experience, force co-operative organisations to acquire a greater commitment, helping the farmer with technical support, but also trying to establish distribution channels for the marketing of their products.

The increasing consumption of processed products has shown the need for an industrial development in agriculture. An increasing part of the agricultural production will be offered as agricultural processed products. As a consequence, agricultural co-operatives need to be present in the industrialisation sector, guaranteeing the participation of the producers in this phase of the food supply chain, which is gaining more and more importance.

The impact of these new challenges for agriculture and the European co-operative system requires inevitably increased efficiency in co-operative organisations. Co-operatives must consolidate those elements that constitute the competitive variables in a global and open market like the present one. The need for management development to manage the increased scale and complexity is clear. The global and changing agenda within the institutional framework make it desirable for the concentration processes in the field of agrarian cooperativism to continue. This will enable their organisations to reduce costs and access the requested scale economies, making them more competitive.

At the same time, due to their greater size, the financing possibilities will increase and with them their investing power, which will allow them to introduce technological advances, as well as taking on new processes of industrialisation with which to seize added values. The differentiation through adequate framework policies, the launching of new and attractive ways of presenting products and, in general, the offer of products which are set apart by their quality, are a priority when trying to maintain customer fidelity. These aspects also give customers an image of seriousness and optimal service. This course of action will enable cooperative societies to recover/strengthen their good image regarding their clients and, of course, their members. We must remember that these societies have received continuous accusations of being extremely dependent of grants and also of lack of efficiency.

Regaining their good image in some countries is one of the main challenges the sector of cooperative societies is facing because in many cases the power to attract new members or the access to certain clients and markets depends on this factor. To achieve this it is absolutely necessary for members to understand that the market isn't capable of absorbing all kinds of produce, and also that production must be part of an integral plan designed by the cooperative society which takes into account the requirements of consumers and the global commercial strategy of the society. Obviously this policy must be followed by an adequate innovation in other important areas within the business: marketing strategy, management of human resources, financial, R+D and administrative resources, information systems which link members and the cooperative society, etc.

On the other hand the constant reduction of income which producers have been suffering in recent years has caused members to be more demanding of their cooperative societies. Members require a defined and precise marketing strategy which guarantees the commercial success of their products. In this sense it is a fact that members tend to judge their societies on the basis of their efficiency more than its traditional social utility. As a consequence, it is desirable that cooperative societies embark on business initiatives to add to the income from strictly agricultural activities. Having started as supplementary activities, the exploitation of the credit departments, petrol stations, management of rural tourism have become significant activities of many societies contributing important additional income streams for agricultural producers.

Activities intended to take hold of prospective market niches, such as service foods or the new demands for local and regional products, as a way of supporting these regions, may also be added to the previous initiatives. (Nilsson J. and Kyriakopoulos K., 1997).

The growing concern for environmental and food safety issues make it necessary for members of cooperative societies to become aware of these concerns before trying to implement measures to ensure environmentally-friendly agriculture. It is the task of each society to ensure its members are kept informed on these subjects. Societies must also guarantee the safety of the foods they produce. The guidelines for these areas have been published in the White Book on food safety presented by the European commission in January 2000.

The need to assure the safety of the consumption of agrarian products and foods makes it necessary to guarantee the traceability of these products. These measures will require the opening of adequate information channels between members and their society, which will make it necessary to maintain a bi-directional information flow with the required periodicity and in an efficient manner. This will make it possible to obtain reliable information on the origin of products, as well as the treatments they have gone through, both in fresh products and processed products. In this sense, as it has been outlined by the Confederation of Agrarian Cooperative Societies of Spain (CCAE) in their White Book on agriculture and rural development of the MAPA. Cooperative societies have competitive advantages compared with other food industries due to their closer links with agrarian production.

Cooperative societies come through as a business formula with enormous possibilities when it comes to meeting the challenges which all agricultural businesses without exception confront today. The proximity to the producers is one of their main advantages, and it is the same members of these societies who are most interested in promoting actions to increase their competitiveness. Despite this, we must not forget that this opportunity will be wasted if cooperative societies do not take the measures, as we have tried to outline, required by the current economic context in which they work. The technical and managerial competence of their management and their ability to provide the vision and leadership to ensure the farmers respond positively to the challenges and opportunities presented by the changed conditions will be critical for the success of the change process in the agricultural co-operative sector.

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The problematic nature of the globalization thesis: its strategic implications for small and medium sized private and social economy enterprises

By Dr Irene Fafaliou

Abstract

There is an on-going debate between those that see globalized markets as good for competition and business and those that see the globalization processes expansion of the neo liberal market concept as something of a threat that must be regulated but that has gone beyond the control or power to be regulated. The author of this paper argue that the dual economy model, although descriptive in nature, with its' strongly institutionalist underpinnings is closer to reality. The author suggests that co-operatives offer the best possibility for market regulation from within the dual economic market rather than state. The paper also suggests that the core economy has been utilizing co-operative methodologies including mergers, joint venture etc and that through co-operatives the secondary economy and secondary labour market can respond to defend its interests more effectively. Here the co-operative model is presented as an approach with a proven if patchy track record that can introduce some elements of consumer choice, economic democracy and market leverage for the small producer, worker and consumer. The dual economy structure, however, has created conditions of economic concentration on a unprecedented scale which challenges the viability of even the largest co-operative formations and challenges co-operatives to redefine community in the context of the global economy. If the core economy has been adopting co-operative strategies possibly the co-operatives themselves need to consider more the possible advantages of merger, acquisition and increased co-operation.

Key words

Globalization thesis, state regulation, regulation from within the market, small and medium sized private enterprises, strategic groups, co-operation, association, membership

Introduction

There is no doubt that in our times neo-liberal economic theory has gained its greatest recognition. Over the last two decades or so, political leaders, mainstream industrialists and institutional elites in different countries around the world claim that we experience a global shift of industrial activity that has swept away the national disparity of business organizations (see for example Reich, 1991 or Ohmae, 2000). In view of this assumption and others concerning the extent and the way in which globalization actors, i.e. Transnational Corporations, have responded to the so-called global shift[1], policy makers[2] in various countries have embraced the free-market approach to achieve economic and social progress[3]. Subsequently, deregulation of national economies and liberalization of markets, facilitated by the newly emerging technologies in Transport and Communications, accompanied by Japanization, subcontracting of production tasks, etc have been advocated as the 'royal road' to various social and economic prosperity (see for example Morris & Imrie, 1991).

On the other hand, recently there are increasing voices raised by global civic society, specific interests groups, such as small business associations, and academics – to mention but a few – who ask for more space for public expression and participation in global initiatives or demand special regulatory interventions by Governments to enhance the international competitiveness of small and medium sized enterprises (SMEs)[4] . This is mainly attributed to the realization that the neo liberals' assumption that the opening up to the international trade would increase by itself the share of the secondary economy in the exports in the world markets, and hence in rewards, was inaccurate[5]. Although this argument is not a new one[6], it is quite challenging to investigate if under the present conditions it is enough or even possible that governments and international regulatory bodies set rules and stabilizers in markets.

This paper briefly overviews some of the freemarketeers' neo-liberal assumptions and interpretations as regards global industrial re-organization and assesses whether this account sets sufficient criteria to manage the fundamental changes inmarket forces operating in the global terrain. This is done in a comparative manner by juxtaposing a sample of views of the globalization thesis' advocates with those set by the Dual Economy School on the evolution of industrial activities. Drawing upon empirical documentation from the industrial and political economy the researcher suggests that:

1) globalization forces (i.e. Transnational Corporations or FDIs[7], and trade to developing countries) have not changed dramatically in terms of conduct, direction, and levels of trade, they are thus not uncontrolled, but supported by actions provided by national Governments and global strategic collusion practices, and,
2) the worlds' industrial re-organization rather is more compatible with the internationalization of industrial activities than globalization. This implies,
3) that the thesis that globalization per se is generating increased market efficiency through competition is problematic.
4) The paper suggests that rather than increasing access to new markets the international consolidation of capital may be closing access to domestic national markets.
5) The paper in its concluding sections raises the issue of how small/ medium sized firms in the secondary economy (irrespective of sector/industry location) may reduce dependency and provide a real competitive response to the new generation of international core economy players. At present the later generally dominate the small and medium sized enterprises and ensure at best only a marginal role for social economy enterprises.

Without denying the usefulness of "good" regulatory reforms to encourage fair competition and foster consumer protection, the author argues that problems still remain in ensuring the rewards from internationalisation of markets are realized by small businesses operating in secondary economies. One possible and realistic solution is to reduce the levels of competition in the secondary economy of the small and medium enterprise and replace it with increasingly co-operative collaboration to improve leverage, logistics and access to markets[8]. The author argues that the co-operative membership based business model is particularly relevant as a proven business formula and being a membership based business one that can most easily accommodate the integrity of the autonomy and independence of the small and family owned firm. From the standpoint of the individual either in the role of worker, self-employed , farmer, or consumer such co-operative structures offer the most direct opportunity for access to some form of economic democracy, distributive justice, autonomy and choice.

In Section 1 this paper explores the freemarketeers' neoliberal approach to business globalization in juxtaposition with the Dual Economy School empirical analysis of global industrial trends. In Section 2 I examine selected conceptual and methodological issues involved in the business globalization theme both from the free market and the Dual Economy perspective. In Section 3 I attempt to assess each perspective's claims on contemporary industrial trends based on available global empirical evidence. In Section 4, conclusions and recommendations are presented as regards global business understanding, evaluation processes, and policy informing frameworks. Once the validity of the neo-liberal model is discounted, as I argue it must be, no one can seriously argue a welfare based justification for accepting without regulation via the state or by association, the dual economy framework. The dual economy framework is itself merely describing the functioning in terms of industrial structure of market distortion via duopoly, or oligopoly.

Thus in Section 5 I go on to suggest some possible recommendations focused on associational approaches to market regulation that can arguably lead to greater accessibility and leverage by those in the secondary economy and external labour markets (i.e. those very groups who find themselves at a disadvantage in the new economic order). I am particularly concerned with the potential of such a strategy to lead to a more democratic, accountable and effective approach to economic regulation. In the past and currently this regulation is provided by the state and trans-national agencies and agreements. This alternative market focused approach may be the best (i.e. the most realistic one) given the trend in the thinking developing in the WTO[9] and subsequent GATT[10] talks[11]. Some contemporary research on the impact of mergers on competition suggests that mergers between smaller companies can actually lead to increased competition (Prior, F. 2001a, p. 829)

The purpose of this paper is threefold: 1) to assess any ideological-driven understanding of global business organization that says – without providing adequate documentation – globalization forces (i.e. Transnational Corporations) are uncontrolled, thus resulting in powerless states and irrelevant industrial, political and social national frameworks; 2) to demonstrate that the worlds' industrial organization rather is more compatible with the internationalization of industrial activities' than globalization; 3) To encourage fellow academics to open up new avenues for research exploring the potential for associational, mutual and co-operative organisations, to assist in preventing oligopolistic distortions of the market and to facilitate greater levels of distributive justice and market leverage for employees, consumers and small and medium sized enterprises.

2. Globalization thesis in context

"Globalization" appears to be a very misleading concept. Although press or electronic mass media use it as if it was an almost universal term, yet it appears to convey various meanings in different countries, societies, ideologies, regions or disciplines. A serviceable general definition has been suggested as: "The loose combination of free trade agreements, the Internet and the integration of financial markets that is erasing borders and uniting the world into a single lucrative, but brutally competitive, market place" (Friedman, 1996).

From the Dual Economy perspective such a definition obscures more than it explains. Dual economists argue that globalization is a "relative"- context-specific – concept, with several dimensions and differentiated economic, industrial and social repercussions (see for example Dicken, Peck & Tickell, 1997). In the industrial settings understanding becomes more confused. What then is talked about as globalization is "lucrative" for a few industrial and political actors integrated in the core economy[12], whilst "brutally competitive" for those involved in the periphery sector of the economy[13]. According to the Dual Economy School the vagueness surrounding definitions used by the free-market globalization proponents is due to the fact that the areas of competition and collusion, and cooperation are ignored[14]. The structure of markets and firms' relative positions are also ignored and Dual Economy scholars argue that such "descriptive" definitions give no indication of the causation beyond "market forces" other than markets are themselves a dynamic of "supply" and "demand". The free market neo-liberal and Social Democrat experts imply the market is led and shaped by the demand side[15]. Dual Economy scholars imply a much more significant role for the supply side and the institutional regulation of markets.

The big issue addressed by the Dual Economy scholars is whether and to what extent the free-market advocates' assumption that concentrated productive or financial power represents demand or market-led incidences, is valid[16]. Dual Economy advocates suggest that such incidences in industrial order depend upon different strategic patterns of large companies aiming at controlling the global market supported by national State's actions or supranational institutions' regulated interactions (see for example Sally, 1994). Moreover, Dual Economy scholars investigate what is, in market terms, the relative balance of power between on the one hand the end–user and consumer markets, and capital markets on the other. The Dual Economy model implies that consumer markets are both "managed" and even created by nationally or internationally operating structures. As regards capital markets, these are deemed as driving institutional State/supra – State decisions. Moreover, the biggest Transnational Corporations (TNCs) are considered as if they are beyond both capital and consumer markets, that is to say in reality TNCs are seen to shape these markets. This model is not saying consumers are merely pawns of TNCs, but it rather implies consumers, investors and governments represent merely some constraints on TNCs. TNCs, their end-customers and investors are in a relationship where all three points involved in the triangle influence the other two. No single point holds absolute power, but it is clear that TNCs are the best organized and most flexible and resource rich element in the triangle.

From a Dual Economy perspective any credible interpretation of the extent and form of industrial organization needs to consider various aspects of given markets or industries, namely those involving elements of micro-, meso- and macro- structures and processes[17]. To give an example, Dual Economists' evaluation of global business activity is based on empirical results drawn upon competition indicators able to affect oligopoly or monopoly power practices in a given market or industry context. These usually include – but are not necessarily limited to – "barriers to entry", economies of scales, and various technological imperatives[18]. The division of the private sector into its planned and non-planned components is also examined (for a solid empirical documentation of the economic differences, i.e. production technologies, logic, behaviour, motivation etc, in planned and non-planned sectors of an economy see Bowring, 1986). Furthermore, institutional arrangements' impact on patterns of industrial organization at global or national level and their effect on firms and markets are considered. The Dual Economy evaluation framework of global or national industrial activity takes into account that economic systems are composed of three distinct structures, namely the centrally planned sector, the non-planned sector and government. Consequently, the Dual Economy advocates examine changes integrating characteristics of all three interrelated variables in a given economy, market or industry. Can co-operatives intervene in the non-planned sector and create a coordinated response derived from a combination of human centred economic and social objectives providing greater leverage in the market economy? This represents an intriguing prospect from both a dual economy and free-market perspective that I shall return to in Section 5.

I now turn to investigate some conceptual and methodological tools used by mainstream free-market economists in order to define " globalization", determine its intensity, and consider its impact on industrial and social order. In the absence of a systematic and comprehensive description of globalization – beyond viewing it as a market phenomenon – a range of indicators has been developed over the last few decades aiming at simplifying its conceptualization (see for instance Hirst and Thompson, 1996 or Wallerstein, 1991). One popular key indicator measuring the degree of global activities in economic terms, is the ratio of exports or imports to GDP and, another, the outwards or inwards foreign direct investments, assumed realized through the international workings of the Transnational Corporations. In 1997, for example, about 40% of all US imports were accounted for by the American based multinationals and another 30% by imports by American based branches of foreign owned multinationals (Prior, Frederick, 2001b, p. 302). Based on such indicators the free-market advocates of the globalization thesis subsequently argue that capital concentration is in the hands of a few TNCs and national states are incapable of affecting global investments' direction for the benefit of secondary economies, industries, and societies (see for instance Ohmae, 1993).

Indeed, evidence on the OECD countries indicates that exports' ratio to GDP increased from 9.5 per cent in 1960 to 20.5 per cent by the end of 1990. In the same region, as Wade (1996) indicates, in the 1980s, Foreign Direct Investments' flows grew three times faster than trade flows and four times faster than output. According to UNCTAD (1995), by the mid-90s there were approximately 40,000 parent firms, with 250,000 foreign affiliates operating around the world economy. Two years before, the New Internationalist (1993) indicated that in the early 90's combined sales of the world's largest 350 TNCs were equivalent to about one third of the combined GNPs of the industrial capitalist countries. The UNCTAD (1994): World Investment Report provides further data as regards the extent of intra-firm trade movements with intra-parents company trade as totaled to nearly one- third of the entire world trade. Giddens (1994) also detects an increase in the concentrated economic world power in the hands of the top TNCs between the mid-70s and the 90s, with the top 200 transnational corporations' revenues increased tenfold.

In 2000, more than 60,000 TNCs owned over 820,000 affiliates abroad, with approximately 55 countries hosting more than 1,000 foreign affiliates, and with a value of FDI stock of over $6 trillion (World Investment Report (WIR) 2001, p. 9). In 1999 and 2000, FDIs -measured either by assets, sales, trade or employment of foreign affiliates- rose more rapidly than any other aggregate indicator, such as gross domestic product (GDP), domestic investment licensing payments and trade (Ibid., p. 9). Taking into account that world trade, in particular in 1999, remained stagnant the rapid expansion of the TNCs' activities observed in the same year, confirms their power in the international terrain. According to WIR, 2001 the ratio of foreign affiliates' sales to global GDP was almost 50 per cent, with the sales value being over twice as high as the value of world exports of goods and services (p. 9).

Several authors, such as Reich (1991), relate TNCs global activity to nation states' new role. Reich assumes that TNCs have no specific national dependency and cannot thus be controlled by national states. The reason for this is that TNCs operate in more than one country and their production processes span across national boundaries as their business strategy dictates. Then he suggests that since TNCs can withdraw their investments from one state to another any time they want to, they have an immense leverage over national states and societies to gain measures and agreements in their favour. In the same vein, further writings (see for example "The Economist", 19 Sept.1992) relate free capital movements with the enhancement of the economic growth in capital scarcity areas. In this context, it is often assumed that this is also the case with the newly industrialized countries of East Asia (NICs). Those who oppose these accounts of globalization relate much of the TNCs' drive for new location to a search for low-wage advantages. Such TNCs' practices, it is argued, affect in turn the labour force both in the Third World countries and the advanced industrialized ones. Interpretations given to the social impact of such movements are highly controversial depended upon different ideologies and political frameworks. Some globalization authors suggest negative repercussions on the Third World countries. Lang and Hines (1993) and Williams et al (1995) assume that free trade and capital mobility lead to further low-wage exploitation of the Third World workers. At the same time such trends are assumed as reinforcing long and persistent unemployment in the First World countries. Frank (1981) suggests that industrial development experienced in the Third World by mobile capital is "undesirable" since it is based on a low-value production rationale and on the super-exploitation of the third world workers.

All the discussion earlier appears to be based on the assumption of a new division of labour exemplified in Frobel's et al. (1980) work, "The New International Division of Labour". According to this perspective, the TNCs free choice to transfer investments from one country to another means that workers in countries of origin and the recipient ones are now faced with competition that comes from pressures addressed from the workers of either country. This theory also is used to explain factors behind sectorial shifts, i.e. from manufacturing to service industries in advanced countries. The fact is that service industries are not able to compensate in either wage levels or sufficient numbers of full-time jobs in the place of jobs-loss in manufacturing. It is suggested that governments need to respond fast by attracting more inward investments. This can be achieved, according to such perspectives, through Government's sustained intervention in labour relations in the form of a welter of anti-union legislation, similar to that experienced in the United Kingdom during the 1980s. Furthermore, it is argued that such typical Thatcherian public responses should be accompanied by deregulation of wage controls, flexibility in working hours, and employment protection. In this vein, Fulcher (1991) claims:

"National economies have become increasingly dependent on their capacity to attract and retain this increasingly mobile capital, which prefers countries where wage costs are low, unions are weak, state regulations, whether concerned with health and safety, pollution, or arms control, are minimal and tax-rates are low. Such typical features of Thatcherism as deregulation, reduced taxation and anti-unionism have long been a feature of the export processing zones, set up to attract capital to Third World societies during the 1970s".

It is quite clear that the issue of global business activities is highly controversial and when we attempt to assess their impact on the industrial and social order, there is need to treat it with great caution. Let us now turn therefore to briefly overview selected developments in the business global order so as to determine better which one of the two frameworks considered in the present paper, constitute the most credible analytical explanation about real industrial trends.

3. Overview of empirical evidence and inconsistencies in global industrial activity

When we turn to explore the neo-liberals' claims as regards TNCs' homogeneous global reach we are faced with a contradictory picture that tells that FDIs' direction in recent years has not resulted in one global whole as is usually assumed by the literature, but it has been routed to certain economic blocs.

To give but a few examples, Gill and Law's (1988) empirical work shows that:

"the share of foreign capital received by the developing countries has steadily fallen from a peak of around 30 percent in 1967…Of developed countries, Canada, the US and West Germany are the leading host countries to the affiliates of foreign multinational enterprises; in the late 1970s they accounted for nearly two-thirds of all FDI in developed countries and nearly half of all FDI".

In the same vein, Jenkins (1992) suggests that, in the last few decades, the FDI share of the advanced industrial countries in the low-wage Third World has fallen in real terms. Results of empirical data in Britain's case included in Jenkins work concluded that the FDI share of the home-based TNCs fell from 19 per cent in 1975 to 16 percent in 1984. A similar decline has been experienced in West Germany and Japan. That is to say, shares for TNCs based in West Germany and Japan were 27 per cent in 1975 in both countries and fell to 19 per cent in 1984 (Ibid.). Griffin and Khan (1992) also suggest that the USA's and Japan's outward FDIs to the whole area of Asia fell in the period from 1989 to 1991. The UNCTAD[19] World Investment Report (1995) indicates that in the early 90s almost all-foreign direct investment is concentrated in the already developed countries or alternatively in the Newly Industrialized Countries (NICs).

Further empirical data indicate that TNCs from different economic blocs or various advanced industrialized countries have been involved in different patterns, rates, and in different ways in global activity. To give but a few examples, data published in 1998[20] illustrate that there is a constant dominance in the global terrain of the TNCs from the so-called "Triad", i.e. EU, Japan, and the US, regardless of whether someone considers number of firms, foreign assets, sales or employment composition. In particular, it is illustrated that in 1996, 85 of the top 100 TNCs were headquartered in the Triad compared to 86 in 1990. Most important, the US, Japan, the UK, France, and

Germany alone accounted for three-quarters of the new entries in 1996 and 1990 (Ibid.). European firms account for the largest number (39) IN THE TOP 100 LIST. The five most important home countries of the world's 100 largest TNCs – in ranking order – were the US, Japan, France, the United Kingdom and Germany (Ibid.).

Furthermore, the highest representation in the world's top 100 TNCs' list was composed by firms operating in highly concentrated industries such as the electronic/electrical sector. Firms from automotive, petroleum and mining, and food/beverages industries follow the first-ranked position of TNCs from the pharmaceutical/chemical industry (Ibid.). Grant and Paterson (1994) have indicated that, although in the European context globalization trends are quite pronounced in the chemical industry, the global dispersion strategies of the British ICI and the German chemical giants such as Bayer, Hoechst or BASF are quite distinctive. In fact, Grant and Paterson empirical evidence shows that the British ICI has been involved more deeply in global activities than the German corporations.

According to more recent statistics, the "Triad", during 1998-2000, accounted for three-quarters of global FDI inflows and 85 per cent of outflows (WIR, 2001). In the same period the "Triad" accounted for 59 per cent of inward and 78 per cent of outward FDI stocks. At the end of the 90s the "Triad" hosted nearly 50,000 TNCs and 100,000 foreign affiliates. Compared with the mid-80s, its share in world inward FDI stock has risen (Ibid.). The EU's shares of stocks and inward as well outward flows increased and it remained dominant as both investor and recipient. This rise in EU's shares (estimated on the basis of the 15 member countries) is mainly attributed to cross-border increased Mergers and Acquisitions (M&As) (Ibid.). As regards the US, in 2000 it continues to be the single largest host country for FDIs, while since 1999 the United Kingdom – and also France for the first time in 2000 – has taken the lead from the US as the largest outward investor (Ibid. p. 12).

As a result from the above evolutions, in 1999 intra-Triad flows have risen, with 40 per cent of total outward FDI stock being located in other Triad members, as compared to one-third in 1985 (UNCTAD, FDI/TNC database).It is worth mentioning that mainly due to the last Asian financial crisis and the prolonged economic slowdown of the EU, the most important country as a destination for FDI in the late 90s became Japan (WIR, 2001).

As regards global trade developments, considerable evidence-based work indicates that trade conveys a more or less similar picture to the FDIs. To put but an example, Glyn and Sutcliffe (1992) show that Africa's, Asia's, and Latin America's share in world trade has declined. Specifically, Latin's America share in world exports has decreased from 12.4 per cent in the 50s to 3.9 per cent in the 90s, whereas Asia's share has declined from 17.8 to 14 percent in 1990. Africa's world exports' share has declined from 5.2 per cent in 1950 to 1.9 per cent in 1990. Glyn and Sutcliffe[21] see that the increase in the entire developing world global share of exports is mainly due to the higher contribution of the four first-tier East-Asian NICs which, combined, account for almost half of the total manufacturing exports originating from the Third World.

Wallace (1996) stresses that only 18 of the biggest 100 foreign direct investors in manufacturing (the top TNCs in the world) kept the majority of their assets abroad in 1993. For instance, the USA's, Japan's or Britain's manufacturing TNCs' assets kept domestically, were 73, 93 and 62 per cent respectively. Wallace further detects the German manufacturing TNCs' experience according to which, in 1993, almost 75 per cent of these companies' goods were sold at home. The US's and Japan's TNCs goods sold at home accounted for 67 and 75 per cent of their total sales, respectively. More or less a similar picture has been detected as regards investors in the services sector[22]. Wade's (1996) empirical survey found that 90 per cent of the US, Japan and Europe's economy is grounded on domestic market production. Wade[23] also indicates that most of the FDIs worldwide occurred as the natural corollary of state regulations in areas such as import quotas, anti-dumping restrictions, national production standards, subsidies etc. Dicken (1992) has shown that till the early 80s, Japanese foreign direct investments in automobile industry had been low compared to investments at home. From this period onwards, the increase in the Japanese FDIs has been attributed rather to protectionism introduced by the US administration than to lower-cost labour advantages abroad (Ibid.).

Similar complexity informs the exploration of writings on capital movements. In fact, the empirical evidence suggests that capital movements around the world are not uncontrolled, but to a great extent they are nationally directed. For example, Amsden (1989) and Wade (1990) argue that the state's interventionist role – either in directing local capital into particular sectors (high-tech or heavy industries) or protecting it from foreign competition through subsidies or controls on imports and restrictions to TNCs – is also crucial for the effectiveness of TNCs' investments. More precisely, these scholars' examination of the development patterns of the new industrial countries of East Asia (i.e. Hong Kong, Singapore, South Korea and Taiwan) suggests that, beyond factors such as geographical proximity or high levels of aid and accessibility to the US market, the effectiveness of state intervention was crucial for their subsequent economic success.

The neo-liberals' assumption that foreign capital dominates the Third World countries' trade composition has been challenged by a considerable number of authors. For example, Jenkins (1987) detects that local capital as a proportion used for exports, equals foreign capital use. White (1988) and Kiely (1994) clearly suggest that South Korea and Taiwan economic effectiveness has been largely based on local capital and state alliances. Schiffer (1991) also confirms the state's crucial role, this time in the case of Hong Kong's economic growth through subsidies.

From the discussion above, it becomes obvious that insofar TNCs do not trade in all parts of the world. Consequently, the neo-liberals' assumption that TNCs marketing strategies "penetrate simultaneously the worlds major markets with new and updated products" (Amin, 1992) appears to be highly problematic with its accuracy dependant on how the word major is defined? Young and Hamill (1992) detected that product markets showed a highly diversified picture also.

In turning to examine neo-liberals' claims about homogeneous patterns of FDIs' development due to new technology and labour flexibility reasons, the evidence we are faced with is not at all straightforward. Indeed, statistics have now been accumulated which suggest that labour flexibility associated with high technology may not have the desired effect in every location[24]. Consequently, TNCs' regionalization movements of subcontracting or outsourcing and maintenance of the higher value production in the advanced countries are reported. To put it differently, the empirical evidence suggests that there are some counter-tendencies to the global business location. Whereas in the mass production era some stages of production process located in low-wage countries, now, in the flexible technology era, it appears that they are allowed to return to domestic manufacturing. Indeed, beyond the car industry case, several other movements of a similar nature have been reported. For example, Walsh's[25] (1991) empirical survey in the Textiles in Germany and Britain suggests that large companies can gain greater cost-advantages at home through restructuring and the introduction of new technologies than in less developed foreign countries. Henderson (1989) reaches similar results examining the electronic wafers' case in Britain. Humphrey (1993) – when he examined the Japanese subcontracting-techniques' transferability to Brazilian industry – concluded that such a transfer was highly problematic.

The clearest evidence that the north-south divide remains and for recognising the dual economy framework at the global level comes from the geographic distribution of buyers and targets for merger activity by multinationals. Outside the OECD nations merger activity remains relatively unimportant. The share of non-OECD nations in merger activity whilst rising sharply in absolute terms was a mere 7% of the total merger activity in 1999. (Pryor, F. 2001a, p. 229, 230) In conclusion, the earlier discussion, although limited to the examination of scattered documentation on few aspects of TNCs' strategic patterns, clearly shows that business global activity is not such a straightforward issue as the neo-liberals assumed. There is such complexity on the matter and such counter-tendencies and inconsistencies that surround global industrial evolution that only a comprehensive, multi-criteria framework of reference could assess its impact in a valid and credible way.

Notwithstanding the complexity it can safely be asserted that the last 20 years have seen a global concentration of capital in manufacturing and services, particularly in financial services (Prior, F. L. 2001a). Mergers, joint ventures, and acquisitions have been making headlines. Whilst concentration does not necessarily imply decreased competition there is no doubting that it has historically – as well as in the contemporary literature – been strongly associated with increased monopoly on both sides of the Atlantic. For example, see the work of the American senator Estes Kefauver in the 1960s, (Kefauver, E., 1965), and academics, such as S. J. Prais, working on data from the 1950s to the 1970s (Prais, S. J., 1976). Many commentators at the time indicated their concern about the welfare implications for consumer and worker of the existence and activities of the giant corporation (Bannock, G. 1971).

In terms of today yesterdays giants would be seen as small as the consolidation and concentration continues under the impetus of a continuing industrial restructuring which due to its increasing scale has become a central driver in what has come to be known as globalization. Have the gloomy forecasts of the 1960s and 1970s been proven correct? Certainly the growth in unpaid overtime and increased stress, reduced effectiveness of collective labour laws and concurrent decline in trade unions suggest the fears have been justified. The weak, even precarious state of small and medium enterprises and the failure of the enterprise culture strategy to generate decent work suggest that "If present trends continue unchecked the greatest threat we face is instability arising from growing inequalities". (ILO, 2000, p. 5)

4. Conclusions

The evidence suggests that the neo-liberals' claims about homogeneous developments in global industrial organization are flawed. In the preceding sections we have reviewed a sample of neo-liberals' claims on global business trends in juxtaposition with empirical results drawn from a number of studies developed within the context of the Dual Economy perspective. Although in the narrow context of this paper I have not captured all aspects considered within the Dual Economy framework of analysis, nor have I overviewed documentation on all aspects of TNCs strategic patterns, it is yet important to have shown the disparity of business responses to global changes and the growing polarisation in economic development and activity in both industrial and geographical terms.

Whilst noting government's continued role in shaping and occasionally determining such business strategic choices, nevertheless, there is little evidence to suggest that in the political environment of privatisation and deregulation in the post Reagan and Thatcher context the role of the state has greatly enhanced either welfare in labour market or consumer market terms. In addition there remains a heavy tax burden falling on middle income wage workers and cut backs in government funding for the public sector, sometimes cosmetically hidden by public / private sector partnerships that arguably have hit the poor. We suggest that the extension of private at the expense of public economic activity has done little to prevent increased indebtedness by households or to improve the quality of the experience in the labour market where large amounts of unpaid over time, atypical employment, and stress prevail. Research by UK Health and Safety Executive, Work Related Stress, 13th Dec. 2002 indicates, for example, that in Britain the number of days lost through stress related illness has risen from 6.5 million in 1996 to 13.5 million in 2001. (Personnel Today, 14.01.03, p. 1)

In general, the Dual Economy analytical framework appears more compatible with the empirical data overviewed suggesting market structure in given forms is the result not the cause of the economic activity. TNCs global strategic decisions in practice appear also to be more compatible to wider market control goals as the Dual Economy advocates claim. The evidence overviewed indicates not so much globalization of industrial organization but rather an increasingly intense competition between a few advanced countries TNCs, associated thus with an uneven development in the global economy. The neo-liberals paradigm appears to fail in taking into account real global and national industrial realities. I have shown that global industrial developments should not be posited as a universal trend as the neo-liberal market advocates claim. Indeed, differences between markets, sectors, countries, and regions together with differences within them are dependent upon a mixture of micro, meso, macro socio-institutional factors, which are recognized as highly significant for global business direction in the empirical surveys overviewed.

The point is neither to justify nor to wring ones hands over the economic reality of the 21st century. The point is to confront and change the reality by exploring the use of the older co-operative forms of collaboration and ownership. These methodologies can create leverage and capacity within the secondary economy itself for the small and medium enterprises as well as in employment and consumer markets.

In this context, at present, co-operative strategies (not the co-operative movement) may be proving effective in supporting the giant firms that dominate the new global economy. Disparities are not only observed between themselves at the driving core of the world economy and the secondary firms, but also between people and countries. The secondary economy firms take the brunt of the competitive pressure and hence serve a crucial ideological role for the total system. Co-operation between firms in the private sector has been the focus of considerable academic speculation with the focus variously on interlocking share purchases, stock swaps, real estate investment trusts, acquisitions, asset sales, and divestitures, leveraged buyouts, joint ventures, strategic alliances etc. (Maidment and Thompson, 1993; Nalebuff and Brandenburger, 1997; Child and Faulkner, 1998).

The evidence of the last twenty years suggests that such activities increase the monopolistic pressures rather than detract from them (Pryor, F. 2001a and 2001b). Whilst factors specific to industry, firm and strategic groups have all become identified as playing a part in the determination of firm performance (Gonzalez-Fidalgo and Ventura-Victoria, 2002) none of the literature on industrial organisation appears concerned with the impact of industrial organisation on the performance of the market from the perspective of the small micro business or from workers and consumers standpoints except in so far as monopolistic versus competitive implications may be deduced at the theoretical level.

5. Recommendations: towards transforming industrial structure in the secondary economy by co-operative strategies

We raised earlier the hypothesis that even in the case of high levels of concentration the existence of co-operative and other membership based business may create real competition. With a people centred service delivery focus and rational in industries they operate with different ownership structures and different missions and values. Thus inserting a genuinely beneficial competitive element into the market (beneficial to their members be they micro businesses, farmers, consumers and/or workers etc). (Davis, 1994)

To give a contemporary example let us look at the co-operative case study within the British retail-banking sector in the UK. (Davis, 1999) This sector is highly concentrated even allowing for the probable decrease in concentration caused by deregulation and the privatisation of Building Societies in the last thirty years. Six big banks dominate by market share. Their collective decision to charge their customers for use of their ATMs was sent into retreat following the refusal of the Co-operative Bank (share under 4% of the retail market) and the biggest remaining building society – the Nationwide to follow suit. In fact they both made a very public stance offering free ATM use to non-customers as well as to their customers. Today the overwhelming majority of ATMs in the UK do not carry a charge. How much money has the existence of competition from the mutual sector saved consumers in the UK in this one example? In fact the Co-operative Bank also innovated by being the first UK bank to abolish bank charges on current account and to offer interest on current account. It also provided the first UK charge-free for life guarantee on its gold card. (Davis, 1999)

It would be surprising if this proved to be an isolated example given that the co-operative movement is a genuinely global movement (Birchall, 1997) with nearly three-quarters of a billion members with the largest proportions existing in precisely those third world economies most excluded from the new economic world order.

By restructuring, co-operating and / or merging, small co-operatives and other businesses might become substantial national regional and even global players challenging the “disturbing” threat to competition from increased private sector merger activity (Pryor, F, 2001a) in the core economy. As one former C.E.O of a substantial consumer co-operative in Canada put it if you measured all the consumer co-operatives turnovers around the world they will be found to have a turnover as big as “Wal Mart”. The problem for co-operatives has been too much government interference and control which has undermined their autonomy and ability to compete. Co-operatives themselves have found governance and the threat of managerialism to be a problem when they do grow and often their very community roots have prevented them from perceiving a broader picture thus preventing growth. (Davis, 1999)

The co-operative difference as a business model with their distinctive ownership and operating goals and values may become an important method of beguine market regulation. (Davis and Donaldson, 1998) There may be institutional and organisational barriers to be overcome in terms of their governance and management to enable them to manage the technicalities and political issues of merger, co-operation, and joint ventures etc but there is no evidence that such barriers as may exist are insurmountable. (Davis, 1995) There may well need to be changes in the co-operative regulatory framework in some countries to permit this.

The present reality in the market place is one in which the current industrial structure and restructuring of the world economy appears to be exacerbating rather than alleviating many social environmental and economic problems. There is a threat of bancrupcy to the small farmer, confusion of the consumer, continuation of widespread poverty, alarming levels of environmental damage, unemployment, under-employment, exploitative labour markets and the dangers inherent for small countries in the WTO led process of liberalisation. This makes academic research on new membership based business structures and their effective management imperative.

Notes

1. For a description of opinions discussing the major changes in the production base of advanced countries, see for example Cohen & Zysman (1987).
2. Former President Clinton quoted in a speech presented in Washington, January, 2001: “…freeing up international markets is the surest way to global prosperity”.

3. For an overview of Neoliberalisms sovereignty in global political thinking from a historical perspective, see George, S. (1999).
4. F.N.: See for example the *Report of the United Nations' Conference on Trade and Development*, (2002), Experts Meeting on Improving the Competitiveness of SMEs through Enhancing Productive Capacity, Geneva, 23-30 Oct., TD/B/COM.3/EM.16/2/03 Dec.2002, p. 4.
5. F.N.: For evidence on this issue, see for example the statistics in UNCTAD *Handbook of Statistics 2001*, Table 1 (Value and Share of Developing Countries to International Trade Exports in Total Exports).
6. See the pioneering work of Polanyi, 1957.
7. F.N.: FDIs stands for Foreign Direct Investments.
8. F.N. Some of the advantages resulting for all sizes and types of businesses and countries wishing to attract FDIs from the agglomeration of resources and capabilities have been suggested also by the mainstream industrial theory; see for example Dunning, 1993, 2000).
9. F.N. WTO stands for the World Trade Organization.
10. F.N.: GATT stands for the General Agreement on Tariffs and Trade.
11. F.N.: "It is not only to create more trade volume. It's about the distribution and quality of the trade that we are talking about" Dr Supachai Panitchpakdi quoted in *WDM Action*, Autumn, 2002, p. 12. (World Development Movement)
12. According to several authors, see for example Garrett, 2000, even in the advanced counties a few actors are benefited from globalization. In this view, globalization is considered as leading to increased insecurity in the workplace, especially high for manual workers and employees in small firms.
13. For an extensive discussion on the matter see Hymer (1972; 1975).
14. For more information see Averitt (1968).
15. See for example Levitt's paper on the globalization of markets (1983).
16. For more information on the way the free-market perspective views consumers' position in the new global economic order, see for example Ohmae's comments in: Ohmae (1995).
17. See for example Munkirs & Knoelder (1987).
18. See for example Wade's prohibited factors (i.e. sunk-costs) to the extreme production transferability or/and his interpretations as regards barriers against financial mobility in Wade (1996): pp. 80-81 & 73-74 respectively.
19. UNCTAD, *World Investment Report* (1995), p.12.
20. See for instance UNCTAD / Erasmus University database cited in World Investment Report, 1998.
21. See for example Glyn, A. & Sutcliffe, B. (1992): pp. 90-1.
22. For more information see, Hirst & Thompson (1996): p. 96.
23. See Wade, R. (1996): pp. 80-1.
24. See for example Korzeniewcz, M. (1994), pp. 247-66.
25. See Walsh, J. (1991): pp. 124-37.

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Co-operative management and corporate governance

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Abstract

Issues of corporate governance have been raised in relation to large commercial businesses and local government, and are equally of current concern to large co-operatives. This paper offers an explanation and critical review of the debates and of their practical consequences. Some relatively neglected areas are identified where attention by co-operatives could lead the way.

The limited practical effects of the corporate governance debate continue to call up new studies and reports, and continue to be controversial. In the light of these developments, some of the key assumptions of the debate need to be re-examined. The codes of practise that most reports seem to generate need to become responsive to the expectations of constituents. In co-operatives, as in other businesses, reconciliation of any such developments with tradition and practises of boards of directors and executives will require careful attention.

Key words

Corporate governance, codes of practise, responsive codes

1. Corporate governance

Corporate bodies are authorised to act as individuals. A company is a legal person (a "legal fiction"). Its managers, and particularly its directors, have obligations in law that they are required to meet. The main activities of corporate bodies are set out in the memorandum and articles of association in the case of capital-based companies, and, additionally in the rule books of co-operatives. Some important aspects of the running of corporations – mainly the financial aspects – have received renewed attention since the early 1990s, particularly, in Britain, beginning with the deliberations of the Cadbury Committee on Corporate Governance (Cadbury, 1992).

The main theme of this paper is that the current debate has focussed on an unduly narrow concept of governance, which is taken here to refer to the act, manner, fact or function of governing, sway or control. There are no technical uses for these terms. "Governance" is an old-fashioned term that has come to be applied in public debate to the behavior of company boards. Not just in any companies, but to large ones, that is public limited companies, which include, for example the Co-operative Bank PLC.

Attention has also been rightly drawn to the unduly narrow nature of the corporate governance debate as it has developed. It is claimed here that this narrow view, is itself partly to be blamed for the relatively weak practical effects of the debate and of its inevitable crop of codes of practise that accompany it.

In the last twenty years or so, attention has also been drawn to the idea that businesses also have obligations to the wider communities. This concern has been manifested in the "Corporate Social Responsibility" movement, and in the (now well-organised and articulate) "Business Ethics" movement. Concepts such as stakeholders and codes of practise have been, and are being developed also in these movements.

2. Corporate governance: the background

Governance, then, is simply another word for overall management and control. Corporate governance is the manner of general management and control of a corporation, business or corporate body. Patrick Maclagan (1998) in his book Management & Morality has summarised the background to modern discussions of corporate governance:

> *In the aftermath of successive business and public sector scandals... practical concern with corporate governance has emerged in recent years as a distinct focus of attention. It has been closely associated with the Cadbury Committee's 1992 report into financial management and accountability in listed companies. But governance has a wider relevance than that, and a much longer history. In the mid-90s Lord Nolan's Committee on Standards in Public Life examined the governance of publicly-funded bodies (Nolan, 1995); and twenty years earlier, the Bullock Committee (1977) reported on the then equally topical issue of industrial democracy, recommending that employees and shareholders should have equal directorial representation on company boards and that these directors should then appoint additional,*

independent members. (These recommendations did not take effect due to opposition from the Confederation of British Industry and the fall of the Labour Government in 1979). (Page 151)

The present Labour Government appears to have no plans to revive the issues.

Maclagan adds that these initiatives have shared a common concern for two things, the monitoring and control of managerial decisions and actions, and second, the representation of stakeholders' views.

A problem that has not been fully addressed in the literature is that of what makes a claim to a say in management decision-making or in corporate governance a legitimate one? Should a stakeholder have a say just because the stakeholder has a financial interest in the behaviour of a business as an employee, shareholder, manager, supplier, customer or neighbour? Should the interests (as opposed to principles or aspirations, for example) of the stakeholders be the only matters of significance? If so, then corporate governance would be largely a matter of calculating or negotiating benefits to the various stakeholders.

It is clear that the various interested parties do have other claims in addition to their financial interests. Directors of large or small businesses have long been held to be motivated by more than salaries and benefits, however substantial they have been come. The corporate governance debate has emphasised the need for non-executive directors to decide the pay of directors. But the "ownership versus control" debate and many contributions to "the theory of the firm" have identified other motivations. The economist, W.J. Baumol produced arguments in the 1950s to the effect that directors were more concerned with maximising the size of the firm for prestige and control reasons. Around the same time, Cyert and March drew attention to the life-style of managers at work. These suggest that expectations, of control, status and intrinsic rewards are prominent. These are matters on which managers are likely to appeal to principles and to claim a right to exercise efficient stewardship in everyone's interests

Something similar can be said for other stakeholders. The "green lobby" does not seek personal financial gain from seeking to influence corporate policies and decisions, instead seeking specific objectives. Trade unions do seek financial gain, but like directors, they have other values that they wish to promote. A degree of control over certain decisions, and the right to defend members caught up in disciplinary matters are important to them. These are not merely matters of calculative interests. They are matters of principle. Of course, not all parties accept the matters of principle that are important to the others. Where principles and interests are intermingled, the problems of legitimate governance and its acceptance are more problematic than when financial interests alone are concerned.

Corporate governance is thus a matter of control according to a mixture of principles and interests. The principles themselves may be agreed or imposed. Discussion of them may even be taboo in some corporations and organisations.

3. Corporate governance in the modern context

In joint stock companies and corporations voting is on a basis that is proportional to the amount of capital invested, by the holders of voting shares. The result is oligarchy, or rule by the few, or hegemony, which is the pre-eminence of one group among other groups. They are both similar in their effects. Corporate governance is much more than the determination of directors' pay and conditions and procedures for election to the board. It involves the values and expectations of the stakeholders of the business. The complexities of modern markets and technologies suggest a need for managers who can provide a lead, and who can provide it on the basis of open and agreed values, agreed with members, and with other stakeholders.

The Cadbury Report (1992)

A committee was established in 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy professional bodies to examine the financial aspects of corporate governance. The Chairman was Sir Adrian Cadbury, of the cocoa and chocolate company. Cadbury had written in the Harvard Business Review under the title, "Ethical Managers make their own rules" (essentially how to "hold the ring" between competing demands of self-interested pressure groups. Kitson and Campbell say of the Report:

The Report presented a voluntary Code of Best Practice, which is aimed at the boards of listed companies based in the UK. It argued for adequate disclosure of financial information and for checks and balances within the governance structure of companies (Kitson & Campbell, 1996, page 114).

The authors note that:

"Concern about the lack of confidence in financial reporting, and the value of audits, which was heightened by several failures of

major public companies whose financial statements gave no forewarning about their true state of affairs" (ibid.).

As it happened, public discussion, and evidence/memoranda sent to the Committee raised much wider issues of corporate governance than would be expected by the relatively narrow brief. Public discussion seemed to regard the status of the Cadbury Committee as that of a governmental committee of enquiry. The then government (Conservative) did send DTI observers to the committee's meetings. As will be seen, the incoming Labour Government also took "Cadbury" seriously, albeit in the context of combined codes, using ideas from the other Committees, discussed below.

The Nolan Report (1995)

Lord Nolan's Committee on Standards in Public Life examined the governance of publicly funded bodies, and twenty year earlier, the Bullock Committee (1977) reported on the then equally topical issue of industrial democracy, recommending that employees and shareholders should have equal representation on company boards and that these directors should then appoint additional independent members. (These recommendations did not take effect, as already seen.)

The Nolan Committee's report occupied two volumes, and issued a code of practise.

The Greenbury Report (1995) focussed on directors' remuneration. Sir Richard Greenbury, director of Marks & Spencer, chaired a committee that reported in July 1995. The Report noted that most quoted companies had established remuneration committees. It issued a Code of Best Practice.

A main recommendation was that

to avoid potential conflicts of interest, boards of directors should set up remuneration committees of non-executive directors to determine on their behalf, and on behalf of the shareholders, within agreed terms of reference, the company's policy on executive remuneration and specific remuneration packages for each of the executive directors, including pension rights and any compensation payments. Remuneration committee chairmen should account directly to the shareholders, …. should consist exclusively of non-executive directors … should consult directly with the company chairman and/or chief executive, and have access to professional advice, inside and outside the company.

The Hampel Report (1998)

The Hampel Report (chaired by the Chairman of ICI Plc) agreed with the two earlier reports in general, but held that the establishment of a broad framework of executive remuneration (and its cost) should be a matter for the whole board.

The London Stock Exchange produced a combined code, with the various reports in view. The Combined Code is appended to, but does not form part of the London Stock Exchange's Listing Rules.

Kitson and Campbell (1999) hoped that the existence of the Codes would

More likely than not lead to a corporate governance regime with greater openness of information, less likelihood of domination by one or a few people and fewer excesses in the remuneration packages of senior executives.

The DTI Consultative Papers on Directors' Remuneration (1999 & 2001)

In July, 1999 the DTI produced a Consultative Document: Directors' Remuneration.

The preamble from the Minister (Stephen Byers) stated:

It is vital that British companies are able to offer remuneration packages that are necessary to attract the best executives to run their businesses, but it is also essential that high pay at the top is linked effectively to performance if there are to be no valid questions about its general acceptability.

The Consultative Document aimed to:

1. Set out the Government's view
2. Give the Department's (DTI) assessment of the effectiveness of the current best practise framework
3. Set out proposals for strengthening the current framework

The Proposals

- Formal requirement for all quoted companies to set up a remuneration committee of independent, non-executive directors, for which:
- The chairman should not be a member
- The chairman should ensure that the remuneration committee has access to professional advice from outside the company
- The committee should, if it wishes, choose and appoint outside consultants

- These consultants should not be those employed by the executive management. The Paper discussed the effectiveness of the current framework (Page 13) in the light of its own Consultants' Report by PriceWaterhouseCooper.
- The Paper proposed strengthening of disclosure requirements with a view to strengthening the link between executive pay and company performance.

The December, 2001 Consultation Document emphasises:

- quoted companies required to publish a report on directors' remuneration
- disclose details of individual directors' remuneration, role of boards' remuneration committees, remuneration policies
- information on performance
- annual resolution to shareholders on the remuneration report.

The Higgs Report

In January, 2003, David Higgs reported on the role and effectiveness of non-executive directors. The report made recommendations that the Government proposed to add to the existing Combined Code on Corporate Governance. The proposals included provision that company chairmen should not head nominations committees (criticised as part of an "old boy network" system, and that some non-executive directors should hold regular meetings with shareholders.

A response from the "commanding heights"

Many company chairmen, in response to the Higgs report held that the proposals went too far. According to The Times newspaper's columnist, Russell Hotten,

> *Research by the Confederation of British Industry (CBI) found that 82 per cent of FTSE 100 companies that responded believe the proposals will undermine the role of chairmen and their ability to run an effective, unified board"*

OECD Principles (April, 1998)

The OECD Council met at Ministerial level

> *"To develop in conjunction with national governments, other relevant international organisations and the private sector, a set of corporate governance standards and guidelines".*

It saw a role for stock exchanges, investors, and other parties (stakeholders creeping in?) to have a role in developing good corporate governance.

> *"The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for investment decisions. Of particular relevance is the relation between corporate governance practices and the increasingly international character of investment".*

The OECD emphasised (Page 2)

- Family holdings, block alliances, other corporations using holding companies, cross-shareholdings
- Role of individual shareholders and creditors
- Government role
- "There is no single model of good corporate governance, (or for board structure) but there are common elements that underlie goo corporate governance, and principles can be established (Page 3)

The principles cover:

- The rights of shareholders
- The equitable treatment of shareholders
- The role of stakeholders
- Disclosure and transparency
- Responsibilities of the board (informed, good faith, due diligence)
- Compliance with the law by boards
- Board should be objective, and independent of management (Page 7)
- Prohibition of insider trading
- Stakeholders: capital providers; labor; creditors
- "Recognition of broader interests, for sake of reputation
- Access for board members to "accurate, relevant and timely information."

4. Co-operative corporate governance

Issues of co-operative corporate governance, as might be expected, show some similarities to and differences from those of the mainstream. As Mills and Snaith (1997) put it,

> *"Thus in the co-operative the problem at board level is not the domination of the board by executives but rather their absence..... Cadbury emphasises the vital role of non-executive directors in contributing independent judgement*

on issues such as 'strategy, performance, resources, including key appointments and standards of conduct', their independence from management and the process of their appointment. The Co-operative Code, while emphasising the independence of the elected directors ...also emphasises the importance of training, independent advice and the possibility of co-opting outside non-executive directors for their business experience".

This contrast can be seen also in the various issues of the Governance Newsletter of the Co-operative Union Ltd (now Co-operativesUK).

Thus the Co-operative Movement has its share of codes of practise, which of course include the International Co-operative Alliance's Statement on the Co-operative Identity.

A poignant problem for co-operatives is to identify how the co-operative governance structure, though radically different from that of the mainstream joint-stock companies in intention and formal control produces governance problems that are often so similar.

5. Stakeholders and stakeholder theories – and their opponents

Stakeholder concepts, unlike elsewhere, do not figure prominently in British practise, as has been seen. Freeman and Phillips (1996) note an extensive literature on stakeholders:

The literature on stakeholder theory can usefully be divided into three time periods. The first is the inception of the term at the Stanford Research Institute (SRI) in 1963. According to this definition stakeholders are, "those groups without whose support the organization would cease to exist, and includes shareowners, employees, customers, suppliers, lenders and society".

The publication of Freeman (1984 Page 73) marks the beginning of the second major period ... It took the ideas of SRI … and the subsequent work and operationalized them into a coherent set of ideas for the practicing manager.

...A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman & Phillips (1986).

The third major milestone, according to Freeman and Phillips is the idea that there are three different streams of research:

- Descriptive (how managers think about managing)
- Instrumental (how various stakeholders help to achieve corporate objectives)
- Normative (how organizations ethically ought to act vis-à-vis stakeholders.)

(Freeman & Phillips op. cit. page 75)

There has been a considerable debate on the claims from the 1970s onwards by the Chicago economist Prof Milton Friedman that

"The social responsibility of business is to increase its profits; shareholders are the only claimants on managerial concern, and that to suggest anything else is subversive" (Maclagan, 1998, Page 149).

My own view is that current practise seems to be a top-down mixture of prudential values and current mores, with few, if any, mechanisms for identifying proper and authentic aspirations of those who have to do, in any capacity, with corporations and companies. British company law recognises only shareholders, directors and creditors as having a claim on the governance of companies, but recognises employee rights. Employment legislation, health and safety, consumer legislation, contract law, local government legislation, planning laws all have the effect of building in pressures and constraints, however. As Sir Adrian Cadbury noted: in fact, pressure groups within and without any business corporation can and do exert influence. Managers are often adept at managing the various pressures.

Captains of industry, on the whole, do ensure the flow of products and services that create income and wealth, potentially at least, for everyone. The role of business ethics and its stakeholder models evolved into helping the captains of industry and their lieutenants to become more aware of what other people hold to be their ethical responsibilities, and to pass similar awareness down the chain of command. The chain of command is rarely questioned. I will draw attention later to one direct critique of the terms of debate on modern corporate governance (by Richard Grossman and Ward Morehouse Dec 2000).

6. Codes of practise

Formal Codes of Practice have long been used in large businesses in the United States, but are not so widely used elsewhere. It is arguable that very many set of principles, rules and customs that amount to codes of practice exist, but are not necessarily "codes of best practice" e.g. honour among thieves, vendetta codes, etc. Codes of practice, like stakeholder theories, have their critics, and in general, their practical value has yet to be proved.

General criticisms of codes may be made with a view to improving them:

Uses

1. They inform people of what is expected of them
2. They give guidance on how it can be done
3. They express values that many participants aspire to, or claim to do so
4. They can, and sometimes do, raise standards (cf highway codes; medical codes)

Their limitations are, in my view:

1. Their expression of aspirations are often very vague (cf DTI paper, above)

   a) They are often prudential, expressing only what can't be got away with

   b) When voluntary, they often apply only to some persons or companies (e.g. large ones only)

   c) Enforcement, if not done by law, can be patchy, if attempted

   d) Lack of enforcement reduces their credibility

   e) They are often accused (& not always wrongly) of protecting businesses from the public, rather than protecting the public customers, from malpractices

7. Critiques of corporate governance

- PIRC: (1997) The Greenbury Code of Best Practice has resulted in more detail on executive pay, but not necessarily improvements in practice
- DTI: (indirect criticisms), can be inferred from the content of the Consultative Document on Directors' Pay.

As already noted, the Higgs Report of 2003 included criticisms from corporate chairmen. These were, of course, criticisms of the movement towards diluting some of the powers of key directors, and were not criticisms of contemporary or traditional customs and practises at board level.

Grossman/Morehouse: Rathaus (December, 2000)

The authors offer a radical critique of modern corporations and their governance. The authors quote Noam Chomsky (2000) as noting that in the nineteenth century, the American courts "shifted power upwards, from the stockholders in a partnership to the central management, which was identified with the immortal corporate person".

They note that until the mid nineteenth century, the charters of corporations obliged corporations to "obey all laws, serve the common good, and cause no harm".

8. Summary and conclusions

1. Corporate governance is a relatively recent expression that indicates concern with, and proposals concerning, some limited, aspects of how the directors of large organisations and institutions are rewarded. It arose from concerns about abuses. How board meetings are conducted remains largely a matter for the board.
2. Codes of practise are being developed, but the evidence on their effects is patchy and still under discussion.
3. These codes relate mainly to establishing remuneration committees concerning directors' remuneration. The committees are held to need to be independent of the executive boards, i.e. composed of non-executive directors, with limited financial interest.
4. National and international attitudes are greatly varied, with American and OECD aspirations tending to favour 'stakeholder'-related ideas, while British discussions have narrowed to matters regarding directors' remuneration, having earlier discussed the separation of the offices of company Chairman and Chief Executive.
5. Related movements in thought are those of 'Corporate Social Responsibility' and 'Business Ethics', both of which have been touched upon, but not discussed in detail in this paper.
6. The wider issues of corporate governance, at present little discussed, but perhaps attracting more attention include: corporate, directorial responsibility for some "externalities", such as transport disasters, BSE, foot-and-mouth disease, control of mavericks, e.g. as in the Barings (Singapore) crisis, or Maxwell's activities with company pension funds and other company property.
7. Even the 'stakeholder' approaches do not seek to create institutional rights for stakeholders, preferring specific remedial legislation and judicial action and tribunals, e.g. on employment contracts, or arbitration (on commercial contracts), codes, safety, fraud, etc.

8. Co-operative corporate governance presents a different problem from that of the majority of quoted companies. The management methods in large co-operatives are often similar to those in quoted companies in terms of customs and practises, as well as in terms of compliance with statutory requirements. Large co-operatives in the United Kingdom in particular have resisted having executive managers on boards of directors. As both of these contrasting practises remain problematic, it appears that reform of corporate governance, as currently debated, addresses only some of the problems of acceptability of corporate behaviour.

Devising more active roles for stakeholders, and matching their expectations appear to hold more promise, together with development of more company-specific checks and balances on the less admirable aspects of executive and directorial behaviour.

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Facing the future

by Tan Kin Lian, Chief Executive Officer, NTUC Income Insurance Cooperative Ltd, Singapore

We are in turbulent times. We have seen rapid changes in the competitive environment during the past ten years. We are now in the midst of an extended global economic downturn, the worst over several decades.

It is timely to ask the question, "Where do co-operatives fit in this new and challenging environment?"

A place for co-operatives

I wish to share three key points.

First, cooperatives can play a big role in our uncertain and volatile world economy. The trend towards the free market and the excess of capitalism have resulted in uncertainty and loss of employment. There is also a greater disparity of income.

As cooperatives, we can provide an alternative channel to ordinary people to improve their quality of life. We can help them to get the goods and services needed for their daily living at lower prices and better quality. We can help them to get a better and more secure return on their savings, and access to loans at more affordable interest rates.

Our mission is to improve the welfare of our members. Unlike commercial enterprises, we are not driven to make excessive profits at the expense of our customers. In a harsh world, cooperatives are needed to play a more meaningful role.

Second, cooperatives have to be efficient to serve our members better. We have to make use of technology and better management to reduce our operating cost and improve quality of service. We have to invest in cost-effective technology and to use it in a sensible way. We have to improve the productivity and competence of our human resources. We have to manage our business better.

We cannot afford to be complacent and stay in our niches. We are facing a more competitive environment. With the advance of technology, profit-driven enterprises are now able to reach out to our traditional markets, and to operate at lower cost. If we do not improve our quality of service, our customers are likely to desert us.

We can embrace technology and modern methods to meet this new competition.

Third, the cooperative philosophy can provide an advantage. In the competition for business and loyalty of customers, cooperatives have a marketing edge. We can communicate the message to our members that the aim of cooperatives is to serve members, and not to make profits at their expense. We distribute most of our surplus back to members in the form of rebates.

The cooperative message is more powerful and more convincing when we are able to operate efficiently and provide a good quality of service.

The experience of NTUC Income

I wish to use the experience of NTUC Income to illustrate the above points.

NTUC Income was founded in 1970 to provide insurance to the ordinary workers and the public at large. At that time, the insurance companies neglected the market for the lower income groups. We had to face strong competition from the private sector over the past 30 years. This includes foreign owned insurers and local insurers that operate on the profit-driven business model.

Over the years, as the lower income groups improve their earnings, the private sector insurers came to serve this market. We also decided to move into their markets and serve those at the higher income groups. Against the strong competition, we were able to increase our market share, and the scale of our business. By 2002, we had more than 1 million customers, with annual revenue exceeding US$1 billion and total assets exceeding US$5 billion. We account for about 15% market share in life, general and health insurance.

We adopted best practices and cost effective technology to improve our operations and quality of service to customers. Our aim is to be better than our competitors in the ability to serve our customers well and at lower cost. 20 years ago, we were a leader in implementing our on-line computer system to serve our customers. 7 years ago, we were among the first to set up our website.

We now have many aspects of our operations transacted through the internet. We actively use the internet as a communication tool to reach out to our customers and agents. We use e-business to provide convenience, fast response and better service.

We use technology efficiently. We do not over-spend on our computer and technology systems. We evaluate each investment and ensure that it can provide a return on the investment. This investment has to be managed properly, to ensure that it is helpful and not a burden to our business.

We are the only cooperative in our insurance market. We are therefore able to communicate and convince our customers that their interest is served better by putting their money with a cooperative that will take better care of their welfare and future. Many choose us, instead of our competitors. With our strong customer base we face the future with confidence.

Serving co-operatives in the region

We have acquired certain capabilities that may be of interest to Co-operatives in other parts of Asia and the world and we are reaching out to co-operatives in other markets to work together. In particular we offer:

- our use of the internet as a communication tool and as a platform to handle transactions.
- our ability to market the advantage of cooperatives in a competitive environment.
- our ability to provide various types of insurance protection to a large number of ordinary people at lower cost.

We are keen to collaborate with cooperatives in offering the insurance plans to their members. We already have a partnership with the Credit Union League of the Republic of China (Taiwan). Their members are able to obtain life and savings plans, based on the co-operative insurance principle.

We are developing a web-based accounting system. This is expected to be ready in 2003. It is an integrated system that can be used by co-operative societies to keep their accounting records, including the savings and loan accounts of their members. It can be web-based, and offer the advantage of access to a central database from many locations.

Conclusion

Cooperatives can face the future confidently, if we are efficient and are able to serve our members well. There is a place for efficient cooperatives in our uncertain and volatile economy. Ordinary people need cooperatives to look after their welfare and future.

Heart of England Co-operative Society: a 21st century Co-operative Society

By Richard Samson, C.E.O. Heart to England Co-operative Society

Background – the late 20th Century

In the early 1990's, retail co-operative societies in the UK were under siege. Market share was systematically being lost to much larger, multiple competitors and in many cases retail societies were operating at profit levels that would not allow for sufficient future re-investment into the business.

By 1994, Coventry and East Mercia Co-operative Society, one of the oldest-established retail societies in the UK, had reached a crossroads. With the long-serving Chief Executive due to retire the following year, the possibility of the Society submitting to the lure of "merging" with other, larger local Societies loomed large.

The Society had been founded by seven local ribbon weavers in 1832 as the Lockhurst Lane Industrial Co-operative Society, situated close to the City of Coventry. 160 years later, by the early 1990's, the Society had become known as Coventry and East Mercia Co-op, an amalgamation over many decades of more than 20 previously independent societies. Such mergers almost invariably took place through trading circumstances which left the weaker partner with little choice other than to pass over control of their business to another, usually larger, society.

Future prospects – independence or merger?

Whilst the Society had a significant asset base, market share was on a downward trend and trading profitability inadequate, leaving little scope for carrying out increasingly urgent modernisation of its extensive shop and property portfolio. The Directors looked towards the new millennium with some apprehension. To surrender a long history of trading as an independent Society was a real option and one that was seriously considered.

On balance, however, it was felt that with the right leadership and trading policies in place, the Society could continue its long and proud history as an independent, local co-operative business. So the decision was taken by the Directors to find a new Chief Executive who would be capable of maintaining and developing Coventry and East Mercia Co-op as a credible, independent co-operative business, fit for trading in the 21st century.

With average weekly turnover of more than £1million, around 1,000 employees, and around 70 trading outlets, this was a very significant local business. But it clearly needed to find a new direction if it was going to have any chance of lasting the pace of business life in the 21st century.

In June 1995, I joined Coventry and East Mercia Co-operative Society as its new Chief Executive, fully recognising the need for significant change, if the Society was to be able to survive and prosper. In particular I identified four key challenges.

Challenge 1 – How to develop a sustainable, profitable co-operative business?

Challenge 2 – To develop our Society's ethos in ways that are relevant to 21st century consumers and their local communities

Challenge 3 – To enable our members to share in the success of their Society

Challenge 4 – To create a learning environment and culture in which employees can share in their Society's success.

In the following paragraphs I outline the context and substance of these challenges and how the Society has attempted to confront them.

Challenge 1: how to develop a sustainable, profitable co-operative business?

Partnership

"We have no money available to modernise our shops, so you'll have to make the best of what we've got", I was advised by more than one of my new Society's Directors.

Whilst I am a strong believer in "making the most of what we've got" my philosophy does not include simply accepting everything I am told at face value. An early priority was to establish a relationship of mutual trust with my Directors to enable the management team and the Directors to be able to work together as part of a partnership.

A new, streamlined management structure was introduced, with clear lines of responsibility and accountability. We analysed our existing businesses and identified the areas that could be successfully developed for the future.We created a practical business plan for sustainable, profitable growth.

Strategy

A key strategic judgment was the early identification of the convenience food store sector as one that offered future growth prospects, in spite of the seemingly unstoppable escalation of superstores throughout the UK. With food providing more than 60% of our Society's total sales through 44 local food stores, we clearly had a significant presence in this market – but an ineffective one in terms of our market penetration and profitability.

We defined two categories of food store on which to base our future development plans and created a professional new identity for each, which we could gradually roll out across the group.

Downsizing and the management of change

We carefully "pruned" and removed unprofitable parts of the business that were judged to have little or no chance of future success. This process included the closure of more than a dozen food stores within a five year period. Our positive attitude towards building staff morale meant that no compulsory redundancies were involved during this process, as we took steps to re-deploy our food store staff within other stores and accepted that there would be a short term cost attached to this guiding principle. We recycled under-utilised assets, retaining no "sacred cows", to help provide the capital we required for the development of our chosen businesses for future success.

Co-operation between co-operatives

We maximised our food buying power by joining the CRTG (Co-operative Retail Trading Group), ultimately enabling our £40 million a year food business to share the buying muscle of a powerful £5 billion a year unit, which now co-ordinates most food purchasing within the Co-op Movement in the UK. But, critically, as a member of the CRTG we retain control of our own regional food business so that we can provide a genuine locally targeted service to our local communities.

With only six local branches, our other trading division, Travel, was not reckoned to have the critical mass to become viable on its own in the rapidly changing business of selling holidays. After various options had been considered, it was agreed to retain a smaller travel business of only two branches, to be operated under the management of Travelcare, which had become a serious national travel operator under the control of the Co-operative Wholesale Society Ltd (now known as the Co-operative Group). Our other four travel branches were sold to Travelcare, to be merged with their own existing branches in each of the towns concerned.

Our two surviving travel shops now make a useful profit contribution to the Society, in contrast to the losses previously incurred by the original six branches.

Modernisation and new technology

We purchased a centrally managed scanning system and began a programme of investment in modernising the stores which would form the nucleus of our future food business, whilst actively seeking out opportunities for new store development.

Our other main business divisions, consisting of Non-Food stores and Funerals, received similar treatment, but with the major new investment initially going into the Food Division as its potential was reckoned to be greatest in relation to the investment required.

Challenge 2: to develop our Society's ethos in ways that are relevant to 21st century consumers and their local communities

We introduced our Helping Hearts Awards scheme in 2000, through which we now give all our profits from the sale of cigarettes and tobacco back to local good causes.

We are the only UK retailer to do this and, to the best of our knowledge, the only retailer in the world with this policy on the use of tobacco profits.

For the first three years, this has meant us setting aside a total of £150,000 from our Society's profits for this unique purpose, with a further £50,000 being pledged in year four. The funds are distributed through our regional Member Relations Committees, whose locally elected members carefully consider each application for a Helping Hearts Award.

Already, more than 400 local good causes have received practical assistance through the scheme, with individual awards ranging from £10 to £1,000. We would be delighted to welcome other retailers – co-operative or otherwise – who may consider joining us on this unique scheme, but so far we appear to remain the pioneers in this regard.

Challenge 3: to enable our members to share in the success of their Society

In 2000, we began to establish a new, accurate database of our new members, so that we could communicate with them through direct mail and create a 21st century range of Member Privileges. After three years, we now have more than 14,000 names on this database, and we continue to encourage our existing members to re-register with us for our records to be accurate.

We considered how we could most effectively enable our members to share in their Society's success and each year we now offer registered members a range of exclusive Member Privileges. These include a superb, customised Members' Calendar incorporating vouchers with a value of more than £600 of potential savings with the Society during 2003, plus various exclusive Member Events at which even more savings can be made.

The total investment in our Member Privilege scheme has gone up from £13,000 in 2000, to £45,000 in 2001 to £208,000 last year, reflecting its successful implementation, which we plan to continue to improve further in the years ahead.

A spin-off benefit has been member participation in Society surveys through our direct mailings, one of which, for example, demonstrated that more than 97% of responding members fully supported our unique approach to the usage of our tobacco profits to help local good causes. We are delighted that our members now have tangible ways of sharing in their Society's success, which was lacking for many years.

Challenge 4: to create a learning environment and culture in which employees can share in their Society's success

We believe that our employees are absolutely vital to our Society's success or failure as a retail business on an ongoing basis. With this in mind we have taken steps to change the culture of the Society to create a more positive environment all round.

Communication

This has to be consistently good. We have developed various in-house information bulletins, through our individual trading and non-trading Divisions and through the Society overall.We created our own Employee Magazine, "Heartbeat", and then completely revamped it, following a staff survey to define what our staff actually wanted from such a publication.

We introduced a staff suggestion scheme in all locations, for any employee to make a suggestion, which goes directly to the Chief Executive for consideration. We distribute copies of our full Annual Report, plus our Interim Report, to all employees, to encourage them to fully understand more about their Society.

The "Investor In People" Standard

This is a nationally recognised standard, which provides a ready- made framework of excellent practice for training, development and communication, relevant to virtually any business. An important aspect of the IiP model is the linking of these elements to the achievement of clearly defined business goals.

We adopted and were recognised for achieving this high standard in each of our trading divisions in turn, followed by our "head office" administration, completing the whole Society's participation. This gives us, on an ongoing basis, an objective, external standard to be judged by, which is re-assessed at least every three years, to ensure that further progress is being maintained.

Our Food and Funeral Divisions have already had an early re-assessment (by our own choice), and have continued to show excellent progress in the areas covered by the standard.

Employee Benefits

We aimed to improve the benefits on offer to our employees and tackled the following areas:

a. Staff Discount Scheme – Non-Food discount rates were enhanced and staff discount was brought in for the first time in our food stores, giving an excellent total package of discounts across a wide range of merchandise.

b. Profitability Bonus – To help our employees share in our Society's success we introduced a bonus scheme, which would only pay out if the Society achieved an adequate level of trading profit. And then, only if each individual's staff performance was satisfactory and their attendance record satisfactory.

   The bonus is entirely self-financing, through our increased profitability.

   We have been delighted to see bonus payments made every year since the scheme's inception.

c. Pension Scheme – This has become increasingly important, as many other companies have withdrawn their final salary benefit schemes. We have continued to maintain our Society's final salary scheme, although the cost has increased significantly.

d. Security of Employment – This area is of paramount importance to employees at all levels. Even when we have closed unprofitable and unrecoverable shop units, we have re-deployed our staff elsewhere and avoided redundancies wherever possible, unlike most of our competitors, who, in similar circumstances, would simply wield the axe indiscriminately.

Our trading success has helped to create an extremely strong financial foundation for the Society, creating much greater security of employment for all our staff.

e. Induction "Roadshows" These were introduced to ensure that all new employees, once they have completed their trial period, meet most of the Society's senior management in an informal environment, where information about our Society's unique culture & ethos is passed on to them.

Our new colleagues also have the opportunity to ask any questions of our senior team, including myself as Chief Executive. I attend every one of these sessions, enabling me to personally outline the Society's ethos and future strategy to all our latest recruits.

New employees often let us know how surprised and pleased they are to be able to meet and chat to the Society's senior management, including the Chief Executive, in sharp contrast to other organisations where they may have worked for years and never seen or met any of the senior management at all.

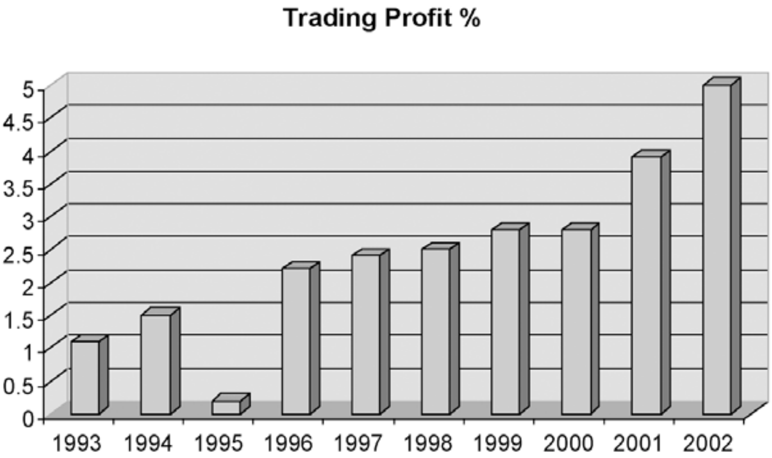
Current progress and our platform for future development

In the table above readers can see the measure of our growth and development in which management, board, staff and members can take great satisfaction.

More than £10 million of capital expenditure has been invested in updating and re-establishing the business over the past six years – in spite of there apparently being "no money available to modernise our shops", as I was informed eight years ago.

Our significant capital spending in recent years has been achieved without the need for excessive borrowing – in fact, our consistently successful trading has helped us to convert net borrowings of more than £9 million ten years ago into a net cash "reserve" of more than £7 million today, readily available to fund our next development phase without any need for external funding.

Our annual turnover of £68 million places us at the lower end of the top twenty retail Co-op Societies in the UK in size terms. However, in terms of our trading profit (as a percentage of sales), we were within the top five retail Societies in the UK in 2001 with a ratio of 3.9%. Our latest year, which ended in January 2003, reveals a 5% trading profit ratio. This is a profit level which no UK retail Co-op Society achieved in 2001 and one that we anticipate may place us within the top two or three UK Societies when results are published for 2002.



We have, in fact, just completed our seventh successive year of record trading profits, of which we are very proud. We have further ambitious plans to grow our business size from £68 million to more than £100 million over the next five years, whilst maintaining an appropriate level of profitability.

The Co-operative difference

Our "new" Society is a completely different organisation from the one known as Coventry and East Mercia Co-op ten or even just five years ago. When we changed our name on January 1st, 2000 to the Heart of England Co-operative Society, more accurately reflecting the region in which we trade, we aimed to create a successful 21st century Co-operative Society. Our new Society logo was crafted to proudly display the universally recognised "Co-op" symbol, along with our own "ribbon" overlay, chosen to represent the ribbon weavers who originally founded our Society more than 170 years ago.

The address of our website is ***www.21stcentury.coop***, maintaining the theme, although we are also contactable through the more traditional website address of ***www.heartofengland.coop***.

We will continue to invest in our employees and to share our success with our members. And we have every intention of continuing to demonstrate to our local communities that we are different from our multiple competitors, by maintaining the distribution of our cigarette and tobacco profits to local good causes. We were delighted in March 2003 to be the winner of a regional Business Award for our Society's "Contribution to the Community", which was based primarily on our unique tobacco initiative. This was the second regional award we have received in relation to our helping Hearts Awards scheme.

Perhaps we will ultimately persuade our retail competitors to join us in this unique world initiative, to utilise this particular element of their profits to help enrich local communities throughout the UK and beyond – but we somehow doubt it! That, it would seem, will remain an important element in the Heart of England Co-op difference.

Atlantic Tender Beef Classic: The Co-operative Atlantic Strategy – competing through quality

By John Harvey, C.E.O. Co-operative Atlantic, Canada

I was Vice-President Food and General Merchandise when we first devised the Atlantic Tender Beef Classic project. Our commitment from the beginning is to the delivery of top quality beef to our member/customers on a consistent basis backed by our tenderness guarantee or we will return to the customer double the price. We made our first promotion back in February, 2000 at our stores in New Brunswick and Prince Edward Island. This included point of sales materials and cooking instructions on every package in addition to our tenderness guarantee.

What we were attempting in this project was competitive advantage through customer satisfaction. Our methodology was to forge a supply chain partnership for customer-led product development. It meant us getting close to our customers and then getting closer to our farmer, processor and carrier suppliers. We wanted to ensure we gained access to improved produce delivered at consistent standards exclusively to our stores.

By adopting a brand and building strong relationships with local producers we have achieved an exclusive high quality brand for our stores which lives up to the claim:

"Locally Grown, High Quality, Tender Beef, Only at the Co-op"

In the development of this project up to the delivery of Atlantic Tender Beef Classic across Co-op Atlantics Co-op Conventional and Co-op Basic stores we met and had to over-come many challenges. At all stages in the supply chain we have faced tough competitive manoeuvring by our rivals who have tried to disable our capacity to source the product at all. This is essentially a success story but one with lessons to be learnt. As with all dynamic competitive contexts it is a success that is still facing challenges. Having identified the goals let me concentrate on the lessons we have drawn from the experience.

1. Managing sources

Some of the more painful lessons arose for us from the business we placed with a private sector meat processing company. Doing business with private sector firms is often a good way to leverage capacity and specialist resources but the contract must be a secure one which can remain binding given any sudden change in ownership. Otherwise, as in our case, a change in ownership on the private side of the partnership can end in the loss of a key partner and to incurring added costs as you avoid interruption in supply whilst maintaining quality. When the company that provided our local abattoir facility was sold to a large competitor the latter was able to discontinue their involvement in the brand. This caused us a serious problem as the competitors action denied us any local processing capacity for the beef. In the interim we are being forced to truck live cattle about 900 miles to another processor. This is not sustainable, as we have to subsidize the freight. It also raises issues of animal welfare.

We are in negotiations with producers and government to build a new beef processing plant. This is, however, a slow and laborious process which we are far from being at the end of the road as yet. Another potential pitfall of partnership with a private company is the quality of industrial relationships in the suppliers business. It is part of co-operative philosophy to engage positively and constructively with trade unions and to maintain good relations. This cannot be taken for granted when working with private sector firms. A lock-out following a rejection of the offered new contract by 67% of union members caused us serious problems in finding alternative suppliers at short notice. The goal of local sourcing for fresh food and reducing the miles food travels on its route to the table has important quality and environmental consequences in addition to the obvious economic benefits. We believe that not withstanding the unexpected costs this strategy is already paying dividends.

In Canada as in many other countries the external regulation and monitoring of the food industry is substantial. Complex issues of pricing and discounting can become a concern not just for the supplier and retailer but also, due to the wider economic, social and environmental impact, for the relevant government regulatory authorities. The government needs to be recognised as a stakeholder and a working partner in the process. In the long-run it must be better for co-operatives to embrace this reality and plan their supplier relationships to be inclusive of government and its' programmes and policy goals than to try to get around them or ignore them.

2. Organisational, management and staff development

Delivery of quality produce to customers can create challenges in terms of internal organisational and management development. Quality produce needs quality merchandising in terms of good presentation, labelling and shelf management etc. In a store format such as Co-op Basic that has an emphasis on value as well as quality getting the price right is also all-important if our customers are going to part with hard earned dollars. There is no question that the aspiration to provide top quality branded produce at affordable prices is a core strategic goal for co-operative retailing. Charging the same price across our different store formats represented a commitment to ensure access to top quality for all our customers. The understanding and commitment of line management and staff cannot be taken for granted in the delivery of this goal. Quality procurement can easily be degraded without the retail teams willingness and competence to comply with the terms of the programme.

3. Relationship management

If employee relationships need careful preparation and continuous management in the maintenance of quality and service, supplier relationships are equally important. Our experience of partnerships with the beef producers, processors and carriers while not fractious is not all love and affection either. At its basest we see them as shortsighted and selfish, and they see us as greedy and profiting from the sweat off their backs. These sentiments don't often rise up but when they do it has to be dealt with delicately. Transparency, regular monitoring and communication and a real effort to ensure mutuality are vital for the maintenance of supplier relationships. Without a shared reward we cannot expect a shared commitment. Building trust, mutual respect and understanding plus the commitment to deliver requires a big investment by management. Without it we cannot achieve and maintain the quality our retail customer expects.

4. Brand development the key

All branding requires more work than a typical commodity program and this is certainly not less the case for the Atlantic Tender Beef Classic project. Food is very significant in cultural terms and in the French-English bilingual context of Co-op Atlantic this meant the brand name needed to be sensitive to meaning in both the language groups. In this context we are committed to communicate in our brand the following key elements;

a) growth in the Maritimes local produced goods

b) support for local farmers

c) Maritime pride and freshness

d) lean and tender (well trimmed)

e) service

f) value-added

g) satisfaction guaranteed and consistent.

Our surveys showed that our customers had a positive level of satisfaction for the quality of beef already available to them in our stores. Yet wider based market research indicated that there was widespread consumer demand for improvement which points to a real opportunity for Co-op Atlantics new Atlantic Tender Beef Classic brand. The national survey had showed that 90% of consumers were unsatisfied by the degree of tenderness in the beef they consumed. In Co-op Atlantics own trading area 88% of consumers preferred to purchase locally raised beef and nearly the same level of respondents believed the Maritime beef to be a better quality then beef from the western provinces. This gave us a sure platform on which to build the new brand.

Food demand is seasonal and in addition the retail customer tends not to purchase outside a fairly narrow range of cuts of beef. Because market research had also indicated consumers wanted smaller cuts the maximum and minimum weight standards in the cattle is critical. Equally important are the standards of handling to ensure the quality and tenderness of the beef. In this context we are working according to Hazard Analysis and Critical Control Points (HACCP) approved standards. These standards are also critical in preventing product wastage. The key to profitability for all partners is to maintain zero wastage by ensuring the right cuts are going to the right outlets whether stores or restaurants and that nothing in terms of skin, bones, offal, etc is wasted.

At the production end we worked closely with the producer to ensure the production standards would meet our claims for the brand. We had to work closely on the quality issues of raising cattle including studies of the cow – calf genetics, diet and nutrition for the livestock, and all the way through the process of growing to the optimum time for slaughtering the animal for quality beef production. This meant we had to ensure a consistency in weight and quality across a production programme covering the raising of some 30,000 cattle per year. Co-op Atlantics' key partnerships in this supply chain included:

- Maritime Beef Development and Marketing Group Inc.
- Atlantic meat Processors
- Maritime Beef Producers
- Three Departments of Agriculture and Marketing, and,
- Office of the Secretary of State (Rural development), Nova Scotia.

Without the support of the Agricultural Department it is unlikely that the co-operation of cattle producers would have been forthcoming. What the Co-op Atlantic initiative has achieved is the establishment of a co-operative led partnership on behalf of the consumer. It is a partnership embracing private and public sectors in a beef research and development programme. In the event we have achieved an outstanding and unprecedented level of collaboration for the food industry in this region of Canada.

Conclusions

The value added is obvious. It has provided a product consumers want that gives Co-op Atlantic a clear competitive advantage as it is a branded product that sells exclusively through our stores. But it is a win – win situation for retailer and producer alike. This is summed up by Robert Acton who as President of the New Brunswick Cattle Producers said of the impact of the Atlantic Tender Beef Classic project. "It creates a firmer market for producers and packers and increased sales for retailers. Most importantly it proves to consumers that we can produce beef as good as or better here in the Maritimes than in the rest of Canada." As Co-op Atlantic is a co-operative business owned by its customers the economic, social and quality value-added generated by our co-operative goes to them as members/customers both directly and indirectly. Service to member/customer needs and interests and that of their community remains the core purpose of Co-op Atlantic.

Looking at our experience from a global and strategic perspective for co-operative retailing. I think the lessons are clear.

1. We can compete with the best if we emphasise product innovation and quality.
2. We can only do this by sticking closely to our customer / member needs and constantly monitoring their opinion as to how well we are doing.
3. Strategic alliances through partnerships with private and public sectors are essential to leveraging the necessary resources but they require careful planning and selection of the right partners.
4. In terms of the supply chain we can see that engaging in close relationships with the appropriate regulative authorities takes patience but pays of in the long run. Relationship management with our managers, employees, suppliers, carriers and customers equally requires careful and continuous attention.
5. We need to communicate our vision but equally to pay attention to the detail. All aspects of the research and development, production, storage and distribution must be our concern as ethical, socially responsible and quality led retailers. We owe it to inform and to listen to our customers/members and to give them the assurance of a brand professionally supported and vigilantly maintained.
6. All the partner relationships with the Co-operative must (within the bounds of commercial prudence and the environmental realities) emphasis transparency and clarity in communication, and a commitment to trading, employment, trade union and member relationships that leads to a win – win situation between all the parties.
7. Without this win–win context right across the supply chain quality in all its aspects is unsustainable in the long run and we will not be able to maintain our commitment to our members /customers.

We are continuing up our own learning curve as the Atlantic Tender Beef Classic project continues towards maturity and we look for our next customer led innovation. That the learning so far has had significant impact on the standards in our business is best illustrated by the recognition we have achieved in the industry by winning the National Private Label Award given by the food industry in 2002 at the annual Canadian Council of Grocery Distribution Convention. A proud moment indeed for Co-op Atlantic.

National Association of Co-operative Officials

NACO is a Management Association and an Independent Trades Union, representing managerial and professional grades within the United Kingdom Co-operative Movement. NACO has sole representational rights for managerial and professional staff in all UK Consumer Co-operative Societies and within the Co-operative Insurance Society Limited.

The range of services available to members' encompasses collective bargaining on pay rates and terms and conditions of employment, professional advice, legal advice and individual representation – always delivered by a full-time professional official of the Association. The Association also provides ancillary services including discounted products, educational seminars and residential conferences.

NACO has grown and developed to be a major and respected professional body representing the vast majority of managers and professionals in consumer co-operatives. The Association seeks to work in partnership with Co-operative Societies and the excellent relationships developed help us support members individually and collectively.

The Association is now looking to expand upon its traditional base, and develop relationships with members in housing co-operatives, farming co-operatives and credit unions to name but a few. NACO also wishes to cross traditional barriers and share practices and experiences with similar minded bodies with links to the world-wide co-operative movement. In this respect, moves are in place to create an affiliate membership to allow fraternal organisations to develop links with NACO in the United Kingdom. Any parties interested in developing such a relationship should contact Lindsay Ewing, General Secretary or Neil Buist, Assistant General Secretary.

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Recruiting ideal executive managers for co-operative enterprises through the use of psychometric testing

By Suparade Karalak, University of Leicester PhD Student from Thailand

The purpose of this research is to improve selection methods. For the cooperative sector in order to be able to recruit ideal executive managers whose attitude and values match the values and purposes espoused by the Co-operative Enterprise. A Co-operative is an autonomous association of persons united voluntarily to meet their common economic and social needs through a jointly owned democratically controlled enterprise which came into existence as a consequence of the Industrial Revolution. Its roots are in the 19th Century and can be found primarily in England, France, Ireland and Germany. The founder of this movement is 'Robert Owen', a successful Welsh 19th Century industrialist who established in New Lanark, a model factory system that provided free education and model housing for workers and their children. Owen went on to found self-sufficient communities run nominally on democratic principles with collective ownership of the assets.

The movement Owen founded has experienced many developments as it expanded across the globe. Today cooperative enterprises provide services in almost all countries and are of major significance in a number of areas of economic activity. For example, in 1993 in the European Union, Austria, Finland and Sweden 14 million people belonged to agricultural co-operatives which supplied 55% of their inputs and marketed 60% of output. In Japan marketing co-operatives handle 95% of rice and 90% of fisheries output while in India, the Anand co-operative with its six million members is the largest national dairy supplier. In the UK the co-operative is the biggest farmer, second biggest travel agent and second biggest provider of funeral services and has a substantial presence in the financial sector. Despite, its growth and past success, recently, the movement world-wide has been faced with three persistent problems.

Problems

The first problem is the lack of contact with the membership due to increasing size and complexity of co-operative business. The rise in 'globalization' of markets has led to an 'intensification of competition' (Davis, 1995:5-8). Such pressures have already caused co-operatives in many areas to increase their sizes in to keep up with the geometric growth of the transnational corporation and enter into trading partnership in order to achieve similar economies and quality gains in their own operation. The new terms of trade and scale of operations create more complex and high-risk business decision making than co-operative boards have ever faced in the past. As co-operatives get bigger and more complex, the sense of ownership and loyalty to the co-operative community becomes harder to maintain and in some areas member involvement has disappeared. Distances between leaders and members creates a sense of 'alienation' and apathy from the co-operative membership towards their organisation and a growing dependency on top management which has led many to fear that managerialism has replaced democracy.

The second problem linked to the first problem is that finding their identity under new conditions. There has been evidence of 'demutualisation' suggesting a betrayal of the mutual building societies who managers were able to buy off an already nominal membership with what were small sums of money being disgracefully drawn out of reserves that had been accumulated through mutual trading. This leads to the third problem and the core of this research to find professional managers to deliver growth, investment, innovation and good governance. This is the key issue for co-operatives. Providing senior executive recruitment and development that enhances the professional leadership of the co-operative. The need for an ideal CEO has been a major issue since the 80s. Laidlaw (1980:68) stated that 'it is not too much to say that the quality of Co-operatives will depend on whether they are first class leaders are leading them.' Today such leadership effectively resides in the CEO. Our ideal co-operative CEO will be able to:

- combine technical competence with an understanding and commitment to the co-operative mission and membership, and,
- has the qualities of leadership to combine the two in a realistic response to both the threats and opportunities that are identified.

My research aims to explore whether 'Psychometric Testing' would yield a higher confidence for obtaining those people as CEO who understand and are willing to commit to cooperative purposes, values and mission without loosing the critical commercial and competitive edge.

Psychometric testing and ideal characteristics of co-operative executives

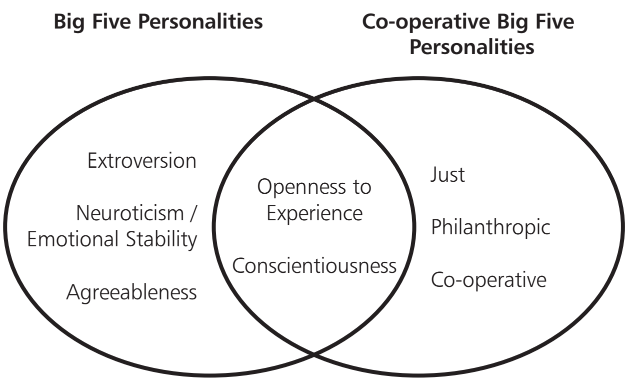
A recent survey of human resource practices and priorities showed that from the viewpoint of Chief Executives and Senior Line Managers the most important task for the HR function today and in the year 2000 is the 'identification of those with high potential'. For this instance, employers are looking at 'traits', as they believe that they are good predictors of candidate's future performance. Traits are characteristics of 'how' candidates operate in life, behave toward others, and view themselves in light of their surroundings. Traits in general consists of such personal characteristics as the individual's values, habits, behaviour, beliefs, perceptions, trustworthiness, and emotional orientation toward people and conditions, attitudes and sources of motivation (Cook, 1998). There are different variations of emphasis in psychometric testing from ability and aptitude tests to personality, integrity and attitude and values tests (Aiken, 1988), in the case of Co-operatives, where often members are distant from the real control of their cooperatives and even lacking in appropriate skills, the emphasis on 'integrity', 'attitudes' and 'values' may be the most appropriate one for our own test.

Psychometric tests have been one of the most popular methods of selection. They provide a standardised method for assessing and diagnosing individuals and provide such information more effectively than most other methods of assessment, for example, interview and observations . The 1990s have seen huge growth in the use of personality assessment within personnel selection practice and research studies designed to evaluate and explore the role of personality within personnel selection (e.g., Barrick and Mount: 1991, Frei & McDaniel:1997, Ones, Visweveran & Schmidt:1993, Salgado:1998, Tett, Jackson, & Rothstein, 1991).

The tests are being used by many organizations such as Whitbread, KPMG, American Express, Ford, BBC and many more. Psychometric testing has been widely used in the US and in many European countries, particularly Britain where the tests are used by up to 80 per cent of all organizations in recruitment for graduate and managerial vacancies (Keenan, 1995 cited in Herriot and Anderson, 1997:25). This shows that psychometric testing method are widely used and recognised within the commercial sector while, there appears to be little evidence of the proper development of these tests focusing on the Co-operative sector. Thus a central goal of the research is to invent one psychometric test for the Co-operative Sector.

In 1987, Hough and Associates designed new inventories, mostly for the 'Big Five subtriats' of Costa and McCrae; 1) extroversion (being sociable, gregarious, assertive talkative and active); 2) neutrocism/ emotional stability (being anxious, depressed, angry, embarrassed, emotional, worried and insecure); 3) agreeableness (being curious, flexible, trusting, good-natured, cooperative, forgiving, soft-hearted and tolerant); 4) conscientiousness (dependability such as being careful, thorough, responsible, organised and planful), as well as hardworking, achievement-oriented and persevering, and 5) openness to experience (being imaginative, cultured, curious, original, board-minded, intelligent and artistically sensitive). I have used my literature research on cooperative history, movements and performances from historical documents, books, journals and so on, to reflect a combination with the Big Five Personalities framework. For co-operatives I have came up with 5 ideal types of characteristic which I believe that our great cooperative founders and leaders in the past and present all have in common. These characteristics are 1) Just, 2) Philanthropic, 3) Co-operative 4) Conscientiousness and 5) Openness to experience.

Figure 1
Co-operative Big Five Dimensions of Personality



From the beginning, the examples of co-operative founders such as Robert Owen, Dr. William King, Vansittart Edward Neal, Alexander Laidlaw and Raffeisen suggest firmly that they are 1) People driven by a concern for helping the poor and social and economic justice, 2) inventive, 3) great thinkers, 4) strong willed and compassionate hearts. In these attitudes can be discerned our new traits, of, 'just' and 'philanthropic'. The rest shows that these leaders are great explorers in terms of theories, ideas and putting them into practice through their strong determination. Leaders should be just, that is seeing wealth fairly and equally distributed with profits, benefits and advantages going to all groups of cooperative stakeholders. Secondly, all founders of cooperatives in the past believed that people must work together in community self-help to achieve their goals on the basis of equality and democracy.

From an historical prospective, 'openness to experience' and 'conscientiousness' dimensions of personality are evidenced in these leaders of cooperatives at the time of the co-operatives initial establishment and development, and therefore are more relevant to our ideal type of leadership. 'The Servant leadership style' may be appropriate where leaders are putting service before interests, listen first to affirm others, inspire trust by being trustworthy and nourish others and help them to become whole (Daft 1999). The reason for this is that first, 'agreeableness' tends to be "light touch and soft". For co-operatives fraternity and unity need to be seen in harder perspective than that. Second, the sector would not desire a leader that possessed a certain kind of emotional instability or be easily prone to depression and anxiety. By thirdly having 'conscientiousness', a leader is dependable by having high standards and always striving to achieve his/her goals in a well-organized manner. Fourthly, since members of cooperatives are from a variety of occupational background interests, being open-minded to others opinion and experience is an important quality for leaders. A co-operative leader needs to be a 'good listener'. Finally, leaders should encourage cooperation between members and management teams to complete the co-operative mission and goals while maintaining its values and purposes.

Co-operatives are based on the values of self-help, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others (MacPherson, 1994:25-26). Co-operatives' unique purpose is about 'giving leverage in the market to individual consumers, small businesses, small farmers and workers while investor-led companies maxmise profits and satisfy shareholders. Psychometric tests can be applied to search for executives who have particular 'traits' in personality which would indicate greater propensity to embrace co-operative values and principles. The question is: have I identified the right co-operative 'Big 5' traits?

Research methodology

Psychometric testing is a written instrument designed to assess some aspect of an individual such as motor skills, verbal or numerical reasoning or personality (Cornelius, 1999:328). It can be characterised broadly under two main types; aptitude and personality. The latter is more relevant to this research and refers to the unique blend of characteristic that define and individual and determines her/his pattern of interactions with environment (Schuler and Jackson, 1996). We will look at Motivation Values Personality Inventory (MVPI) by R. Hogan and J. Hogan (1993-2002) tests as an example of our test. To be able to generate our own purposive test (questionnaire), we will have to use 'Content Analysis' as a tool. Barelson (1952:147) famously described content analysis as 'a research technique for the objective, systematic and quantitative description of the manifest content of communication'.

Data sources which we will be looking at include speeches, quotes or any information about selected Co-operative founder managers worldwide in the past and present. Also, we will look into the pattern and use of value statements during speeches, for example, expressing hope for the future and other aspirations. Documentation of speeches can be found in textual sources such as the Co-operative News; journals, Congress Reports and so on. Approximately 100-300 statements will be drawn from speeches of the co-operative founders and tested by Content Analysis, in order to generate a reliable and valid 'Psychometric Test for the Co-operative Sector'. Once, the test (questionnaire) has been generated, we will pilot two main population samples which are 1) MA in Co-operative Management (Distance Learning) students of Leicester University (all prospective co-operative managers from 20 countries) and 2) Co-operative managers in NACO (approximately 30-50 of them, based in UK). Thus, overall, our research questions are:

1. Can a Co-operative Manager type be defined and can a test be evolved that will help cooperative eliminate those characters that will find the cooperative ethos and identity difficult?
2. Is there a single 'best predictor' for a personality type best suited to a CEO in a cooperative?
3. Can 'Psychometric Testing' be used as a tool to identify an ideal executive manager whose attitude and values match the values and purposes espoused by the Co-operative Enterprises?
4. Is it possible to define the personality of executives of cooperative organisations that crosses sector and cultural boundaries within which co-operatives operate?

Summary

The persisting management problems of the Co-operative sector have caused great difficulties for the sector to increase or even to maintain its growth and performance effectively and sufficiently. Co-operative values and principles have been neglected and not thoroughly understood by all co-operative members, staff and worst, leaders and managers. There is great need for these principles and values to be upheld again and to find persons suitable as Co-operative leaders and managers. The next question is 'how can we find such person'? Without the right people coming through 'psychometric testing' as a tool to recruit our ideal co-operative leaders is useless. The development of recruitment and selection for the Co-operative sector is relatively poor in comparison to the commercial sector, in fact, co-operatives do not even have their own recruitment consultancies. Could this reflect the Co-operative sector's lack of awareness of the importance of the recruitment and selection process for performance? If this is the case, then generating our own 'Psychometric Testing' can be seen as the first step to raising awareness.

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Appendix

Here are listed 24 selected Co-operators used in initial Content Analysis:

1) Arizmendi, Don José Maria (ESP), The Mondragon Group, Spain,
2) Blanford, Thomas (1861-1899), General Secretary of Co-operative Productive Federation,
3) Bryan, Lady Noel (1792-1860),
4) Buchez, Philip (FR) (Producer Co-operative), France,
5) Cooper, William (1822-1868) , One of the originator of Rochdale Pioneers,
6) Davies, M Llwelyn (1862-1944), Secretary of the Co-operative Women's Guild, UK
7) Dejardins, Alphonese (1854-1920), Founder of Credit Union in North America,
8) Fourier, Charles (France),
9) Gide. Charles (1847-1932), France, Wrote Principle of Political Economy in 1883, Chair of Comparative Social Economy at Paris ,
10) Greening, E O (1836-1923) – helped to form the Co-operative Productive Federation, 1882 and edited The Agricultural Economist, UK,
11) King, Dr. William (1786-1865) – An originator of the Co-operative Movement, editor of Co-operator (journal),
12) Laidlaw, Alexander Fraiser – ICA Congress President, for example, 1980, 27th ICA Congress,
13) Maxwell, Sir William (1841-1922) – Chairman of the Scottish Consumer Wholesales Society (SCWS),
14) Mitchell, John Thomas Whitehead (1828-1895), (CWS

Records) – Chairman of Consumer Wholesale Society (CWS), England,
15) Neale, Edward Vansittart (1810-1892) (Co-operative Union), UK – Christian Socialist, co-operative idealist, and General Secretary of the Co-operative Union,
16) Owen, Robert (1771-1858) (Address to the People of New Lanark) – 'The Father of Co-operation', of British Socialism and much else,
17) Pare, William (1805-1873) – Leading Owenite,
18) Plunkett, Sir Horace Curzon (1854-1932) (Agricultural Co-operation) – Pioneer of Agricultural Co-operation, UK and Ireland,
19) Poisson, E (French) (French Co-operative Union),
20) Raiffeisen, Fridrich Wilhelm (1818-1888) (GRE) – Originator of Co-operative Credit Unions in German,
21) Takamura, Isao (Japan) – Kobi Co-operative and Japanese Consumers and Co-operative Union,
22) Toyohiko, Kagawa (Japan),
23) Warbasse, Dr J P (1866-1957) (US) – edited Co-operative Democracy, Co-operative Education, The Doctor and the Public, What is Co-operation? Co-operation, A Way of Peace, Problems of Co-operation.

Book Reviews

Managing as if Faith Mattered

Helen J. Alford, O.P. and Michael J. Naughton, *Managing as if Faith Mattered. Christian Social Principles,* University of Notre Dame Press, 2001, pp336. Paperback ISBN 0-268-03462-1

The book *Managing as if Faith Matters* makes a convincing and important case that Faith does matter. By focusing on the organisation and managers in the organisation it emphasises the important ethical and social role of management. It demonstrates how important it is for us to recognise the role of purpose and values in determining management culture. The authors remind us that ethics is not a co-operative monopoly and that public spiritedness and concern for an economy for the common good could and should be possible no matter what form of ownership a business takes.

Their analysis commences by addressing the separation business can impose between social and economic spheres and the resulting personality splits between how people behave at work and in their home life. A discussion of the purpose of business and the importance of human development within a corporate community provide the intellectual foundations for a consideration of job design, just wages, the use of finance and marketing. The core of the authors' argument may be summed up in their own words as "Without a robust, deeply philosophical and theological discussion over the why we do these things, even the most thorough technical education recommends by default, a privatised professional ethic." (pp17-18) This leads us to the desperately "shallow conclusion"(p18) that institutions only exist to serve private ends. Against this the authors urge on us a Christian Social tradition that they claim promotes integrity by a clarification of the goals and ends to which human beings are called to aspire.

Certainly the reality of "the triumph of science" in the 19th century has led to the nightmare of science in application in both war and peace leading to holocausts, species depletion and threats to the very atmosphere itself. We have lost faith in the ideals of the enlightenment. The decline in Enlightenment philosophy has led to increasing fragmentation and loss of human identity in a post modern world rather than back towards Christian perspectives on the answer to the why of life. Why have we have found it hard to retrace our steps to a world of faith? It is here in the fragmentary and opportunistic post-modernity that as a Christian and a co-operator this reviewer finds the authors silent. For the explanation of why there is a lack of faith in business is not examined. Had it been examined one avenue that I suggest would bear much fruit is the loss of community through the increasing size and distance between owners and other stakeholders. Another is the obvious conflicting interest and imbalance of power between labour and capital and between big business and small business that is, often as not, driven to extreme resolution (win-loose) rather than to a negotiated settlement (win-win).

Robert Owen found to his cost that in an age when master and servant did live more or less close by each other conditions hardly improved for the majority even though paternalism was seen as a Christian obligation in his day. A saved and biblically faithful people live not individually for themselves but in solidarity for each other. In an enlightened privately owned firm this is indeed achievable under conditions of market regulation. Alford and Naughtons discussion as to how it may be acceptable to pay less than a just wage shows that for a free market loaded against labour to provide justice in distribution, even given a management driven by Christian virtues, is highly problematic. Isaiah constantly reminded the children of Israel that justice in the distribution of wealth is essential if we are to live according to the will of a just and loving God. This is echoed in Jesus' own words that He came to give life and abundance.

A co-operative intervention, therefore, can be seen as all the more important in the realisation of Alford and Naughtons' agenda. A business culture informed by the Christian understanding of "why?" is more possible because co-operative business far from separating economic and social perspectives unites them. Co-operative membership and community ethos can break down the distance and polarisation of society more easily than private sector firms. We must recognise that in practise co-operatively owned businesses often fail in this respect along with their private enterprise competitors. Given the right leadership, however, they provide a more promising context for managing as if faith mattered. Co-operatives that are managed as if faith mattered would not be uncompetitive. On the contrary they would be more competitive. Laying down standards of professionalism based upon a concern for community and creation ultimately reflects the market. This is because such standards are a response to the “Why?” in business.

In calling for us to manage as if faith matters Alford and Naughton address us all – Christian and non-Christian – in the co-operative movement because faith reflects vision. Co-operatives that want to remain true to their identity and purpose need managers with a clear vision of the centrality of humanity and creation in their answer as to the why of co-operative business not just to the “how”. This “why” is partly about market regulation. It is also about setting standards that facilitate managing as if faith matters across a wide canvass, in a pluralistic economy encompassing a variety of business forms and models. The co-operative presence is the route to establishing a market that genuinely reflects the human and creation centred economy which is economically, socially, environmentally and spiritually sustainable.

Reviewed by the editor.

Rediscovering the Co-operative Advantage

Johnston Birchall, *Rediscovering the Co-operative Advantage. Poverty Reduction through self-help*, ILO, Geneva, 2003. ISBN 92-2-113603-5

This is a thoughtful and challenging book with an analysis that goes well beyond its brief to focus on the role of co-operation in the pressing issue of poverty reduction. Birchall in fact offers significant insights into the development of co-operatives and community in general. The lessons and insights of the past form his starting point. Although Birchall does not state this explicitly, in his discussion on the background of the Rochdale pioneers we may note a possible distinction between the capacity for self-help among those who have become impoverished (such as the English hand-loom weavers of Rochdale) to those born into poverty without education or insight into their condition lacking even minimal resources. The author quotes Hans Munker approvingly to the effect that “It’s misleading to say co-operatives have members. It is more correct to say members have their co-operatives”. (p13) It may be primarily the former context that both writers have in mind. Earlier in the section, Birchall noted the dangers of too fast top down co-operative development pointed out by Laidlaw (p9) where bureaucracy rather then member education and autonomy became the key feature.

So should there be special programmes for the poor? Birchall sees arguments for and against. His excellent case studies suggest that the answer depends on empirical circumstances and to prevailing technologies and markets rather then to a general theory. I wonder whether the ICA 1977 experts distinction cited by Birchall (p10), that co-operatives can make wealth but not redistribute wealth is important or even true. Wealth has a relative element – for to enrich one group previously in poverty relative to another is to redistribute power and reduce dependency. Those farmer co-operatives gaining leverage in the context of markets dominated by big wholesalers, processors and retailers in effect do redistribute wealth directly. The case of Americas Rural Electrification also shows where co-operatives have played a key role in poverty reduction through the provision of infrastructure. In the later case legislation and political support was a necessary pre-condition but the states role was to facilitate not implement or manage.

Johnston does link the anti-poverty struggle to the broader labour market and the ILO campaign for “Decent Work” focus on the working poor. The importance of Trade Union organisation in labour markets is referred to but not emphasised. I doubt, however, there is a better organisation than the Trade Unions for ensuring the participatory element of the working poor in anti poverty campaigns focused in the labour market. One significant gap in the analysis by Johnston Birchall that reflects a gap in the literature in general is any real discussion of the domestic economy as having a role in poverty elimination. Birchall does refer to the traditional focus upon women’s lack of access to paid employment and ownership of farmland and makes a brief reference to pre co-operative formations. The implication of such traditional view that the domestic economy can only be marginal in anti poverty campaigns and that women’s dominant position in the production of value added in this context is insignificant for combating poverty or raising the social and economic status of women has been challenged in *Labour and the Family*, (Davis P, Harekopia University, Athens, 2000).

One of the other strengths of Johnston Birchalls book is the wide range of excellent case studies and the commentaries he makes on them. From consumer co-ops in Russia, through women’s agro tourism co-ops in Greece, to shoe shine boys in Uganda Birchall draws out the lessons and contexts for development of more effective anti poverty programmes. I particularly liked the case of the Bolivian water co-operative. The opportunity for co-operative alternatives to multinational domination of utilities is critical for the empowerment not just of marginalised impoverished communities but for the very independence of many small states. For example in the Netherlands Antilles where water supply and power generation are located in the same source. For those concerned with the relative efficiency of co-operative to capital based and nationalised organisations delivery of utilities/services Birchall cites the study by Birmingham University economists demonstrating that the Bolivian water co-operative is amongst the most efficient producers of water in Latin America.

Johnston Birchalls book warns us that opportunities for government and other elites to manipulate co-operatives has been and continues to be a threat but one that can be overcome. The essence of his analysis is that co-operatives work best in the struggle to eliminate poverty given; 1. legislative frameworks that enable autonomous co-operative organisations, 2. projects that emphasise participatory and holistic approaches, 3. focused HRD programmes which develop leadership, democratic and technical skills, and, 4. a co-operative value based management committed to empowering the communities they serve. This book should appear on the list of recommended reading for all students studying co-operative management and organisational development. I strongly recommend it to the general reader interested in development issues and all co-operative development workers.

Reviewed by the editor.

Strategies of Co-operation

John Child and David Faulkner, *Strategies of Co-operation. Managing Alliances, Networks and Joint Ventures*, Oxford University Press, 1998, pp371. Paperback ISBN 0-19-8774845

This book despite its title has not been written with the co-operative movement in mind. Birchalls book reviewed above noted that there is a co-operative blindness by writers in the anti poverty literature. We can certainly see this blindness to co-operatives in the mainstream management literature. Not, however, a blindness to the importance of co-operation in business. The increasing importance of stakeholder co-operation, always a central focus in the HRM literature, has been over the last twenty years or more the focus of a wide literature examining supply chain relations and world class manufacturing and total quality management in general. In more recent times the growing importance of joint ventures, alliances and networking for business competitiveness and strategy has meant the issue of managing co-operative relationships has challenged competitive relationships as a focus for the analysis of organisational behaviour in the marketplace.

Although not a new book we bring it to the attention of readers of the journal because for co-operatives the issues it deals with are of growing importance. Globalization means that co-operatives often need to gain leverage of management expertise and logistical and technical resources that are available in capital based enterprises. It is important to explore the fundamentals of managing such partnerships as it is to recognise the variety of goals that such forms of relationship might be entered into to achieve. Co-operatives need to recognise how competitors behave and why it is critical for cooperatives to co-operate in the deregulated markets and transition economies within which they are engaged. It is also vital when assessing the options for collaboration and co-operation to recognise whether joint ventures with other cooperatives or with non-cooperatives make the best sense.

The importance of trust and mutual benefits are stressed by the authors early on in their book in chapter three. Without intending it the authors suggest the outline of a good case for advocating co-operation between cooperatives as the preferred strategy for this sector with their stress on the importance of mutuality, bonding, and trust and conflict resolution through shared information. The authors point out that "…trust is socially constituted, in that it is necessarily realized and strengthened by social interaction, cultural affinity between people and the support of institutional norms and sanctions." (p51)

The book starts with a helpful review of the literature which will be valuable to students and managers new to the issues and concepts developed in the book and list 10 key ideas concerning the importance of co-operation as a business strategy. (pp6-7) Of particular significance in this checklist may be those relating to organisational learning, culture, IT, commitment, trust, and development. In chapter 2 the different perspectives on co-operation are evaluated dealing with economics, (theories relating to market power, transaction costs, agency theory and increasing returns theories are reviewed here), games theory, strategic management theory, and organisational theory (resource dependence, organisational alliances, trust).

Chapter four is very helpful in identifying sound motives for co-operation and following this chapter 5 examines the basis for the selection of the most appropriate partners to co-operate with. Again the case for co-operation between cooperatives is clearly going to be a strong one as compatibility of strategy, low risk of competition from the partner, and organisational compatibility gives co-operation between cooperatives a three out of six criteria head start. Nevertheless, cooperatives clearly do need to consider the private sector more often in terms of sources of competitive advantage, (technology, managerial expertise, logistical capacity, IT capacity) and their potentially pre-emptive value in competitive terms. In the chapter on networking and virtuality cooperative managers may want to reflect more on the equal partner network for their emphasis on markets rather than hierarchies but also on the role of the virtual corporation following up on our guest paper (this issue) idea for the virtual cooperative. (See Natale and Sora Special Guest Paper).

This is a dense and informed work which will repay careful reading by cooperative managers and board members. All its chapters on negotiation and valuation of partnerships, general management, culture, control, organisational learning and the importance of emerging economies (particularly the issue of local partner objectives) have valuable insights for co-operative practitioners and academics. Child and Faulkner note that the literature on inter-firm co-operation has often been seen as a short term expedient for multinational corporations (p342). We can also suggest that co-operation with capital based firms may also be seen as a short term expedient for cooperatives. The authors' subsequent concluding arguments to suggest longer term significance for co-operation between firms may lack some conviction when applied to the private sector. Yet the environmental imperatives they describe to justify a longer term perspective for co-operation between firms are just as relevant to the cooperative sector. The challenges of complexity, to optimise simultaneously along more then one front, the relative instability in the new environment all suggest that co-operation between cooperatives makes even more sense that ever. Some of the content in this book also suggests that cooperatives will be better at conducting joint ventures, alliances and networks when and if they are true to their values and identity and identify partners with similar values to theirs. This conclusion must of course be read between the lines as cooperatives are not mentioned at all by Child and Faulkner in their discussion of co-operation.

Reviewed by the editor.

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