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Co-operatives in Principle and Practice

ANNE MACGILLIVRAY AND DANIEL ISH

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CENTRE FOR THE STUDY OF CO-OPERATIVES



UNIVERSITY OF
SASKATCHEWAN

CO-OPERATIVES IN PRINCIPLE AND PRACTICE

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CENTRE FOR THE STUDY OF CO-OPERATIVES OCCASIONAL PAPER #92-01

Centre for the Study of
CO-OPERATIVES



Co-operatives in Principle and Practice

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Preface

In January 1989, while on sabbatical leave in Auckland, New Zealand, I received a telephone call from Mr. Joe Arvay, Q.C., of the Attorney General's Department of British Columbia. Mr. Arvay had been assigned the task of leading the legal team for the Province of British Columbia in defending an action brought against it and four other parties by former members of the Teachers' Investment and Housing Co-operative. The plaintiffs had lost money, a lot of money, when the co-operative became bankrupt. Mr. Arvay had a number of questions for me concerning co-operatives, their nature, the principles that guide them and their practices.

I had answers to most of the questions. However, when asked whether I could verify my answers and opinions in a manner that would satisfy a court, a problem became clear. There was no easy source that captured the full range of co-operative theory and there was not in existence a study that tested the practice of co-operative principles. As a result, the Attorney General's Department of British Columbia offered to finance a study that reviewed the literature on co-operative theory and examined co-operative principles as they are actually practiced.

The work to be done required skills, talents and energy beyond that possessed by me. Anne McGillivray, a law professor at the University of Manitoba, became involved in the project. Anne's energy, ability to structure and carry out empirical research, and to engage in a high level of conceptual thought earn her first author status on this paper.

Anne and I owe thanks to others. Clarence Fairbairn organized the profiles and charts of the eleven co-operatives from information provided by us. Mary Lou McLean worked with several drafts of material from different word processing systems yet put them together in one whole paper; patience was a virtue much in demand to achieve the result. June Bold's considerable editorial and computer skills are responsible for a much better final product than otherwise would have been the case. These three people deserve our gratitude but any shortcomings in the paper belong to Ish and McGillivray.

The eleven executives interviewed for the study deserve a special thanks, too. Their candor and co-operation in providing information and insights were much appreciated. Although there is very little in this paper I believe they would not want attributed, it was agreed that we would not identify individuals. With regret, I will maintain that confidentiality even for this present purpose.

This paper and the study conducted were not done under the auspices of the Centre for the Study of Co-operatives but the content of the paper was thought to be worthy of publication in the Centre's occasional paper series. The law suit which initiated this research was settled recently, prior to going to court.

Daniel Ish

Abstract

Certain popularly held beliefs about co-operative principle and practice are not entirely consistent with the facts of co-operative business in Canada. In order to get a more accurate picture of co-operative enterprise, a two-fold study was undertaken. The first part sought to determine whether the term "co-operative principles" has a fixed meaning and to ascertain what are these principles. The second part examined a selection of co-operative businesses chosen from those most unlike the popular picture.

Part I of the study consists of a review of the literature on co-operative principles. The review discloses a variety of interpretations of principle as well as significant changes over time in the principles considered central to, or definitive of, co-operative practice. Part II, based on corporate documents and interviews of managers of co-operatives, presents the business profiles and investment practices of eleven multiactive and/or risk-taking co-operative businesses. Co-operatives engage in a full spectrum of business activities, as do investor-owned corporations, but are bound by slightly different practical considerations based on co-operative requirements. In conclusion, there appears to be nothing inherent in co-operative principle, in theory or in practice, which dictates a narrow model of co-operative enterprise.

Introduction

It is widely assumed outside the co-operative sector that co-operatives are small, unifunctional, closely managed, localized, ethical enterprises whose sole purpose is service. When services are no longer required, the enterprise dies a timely death. Conversely, when services are required, particularly in economically marginal areas, a co-operative will spring from the soil of community needs. Making money is not a real, or legitimate, purpose of co-operatives. These assumptions are not dislodged by the existence of the huge Prairie wheat pools or the massive banking and investment systems which comprise the Mouvement Desjardins.

On its face, the popular picture seems to capture the essence of the Rochdale model on which Canadian co-operativism is based. However, the Rochdale co-operative, established in 1844, itself resembled this type of co-operative for only a short time before it branched out widely in business purpose and organizational form. Nor did this picture represent the extent of the Rochdale founders' vision, which embraced a network of linked enterprises which would meet all community needs.

With a few historical exceptions, linked localized co-operative networks have not formed in Canada. Co-operatives have, in fact, developed a complex of organizational forms: vertical and horizontal integration; looser economic affiliation with one another through joint venture; joint ventures with ordinary corporations; and ownership of ordinary private corporations through shares, purchase or creation. Co-operatives individually carry on a variety of business purposes within the body of the co-operative as well as through affiliations with other enterprises. Such multifunctional, or multiactive, co-operatives dominate the sector, leaving the margins to the small unifunctional *boutiques*.¹

In order to understand co-operative business enterprises and the complexity and dynamics of co-operatives in Canada, one must go beyond annual reports and public documents into the philosophy, both written and oral, of co-operative enterprise. Co-operatives are an unusual amalgamation of the idealistic and the very practical and these dynamics are played out in co-operative practice as well as in theory.

Although thousands of Canadian co-operatives founded on the Rochdale model have failed, the model itself has been demonstrably successful in terms of its stability, longevity and portability compared with other collectivist and communitarian models of co-operativism, for many of those co-operatives have survived, some since the turn of the

¹ See Co-operatives Secretariat, "Top 50 Canadian Co-operatives - 1990," in Appendix I, Table 4.

century. It has also been successful compared with ordinary business corporations.² This success is attributable to seemingly contradictory characteristics of the model which co-exist in a shifting balance, with one or the other tending to predominate at any given time both within the enterprise and within the co-operative sector. These may be expressed as the *ethical* and the *practical*, the individual and the collective, form and content.

The co-operative model offers economic self-help through the pooling of resources. Fairness is reflected in provisions for democratic decision-making and control (one member, one vote regardless of financial stake) and for the use of surplus gain, or net profit, for purposes which do not unduly reward capital investment. The model emphasizes service to members and therefore adaptability to local requirements and economic climate.

If co-operatives are “big business,” as suggested here, where does this leave democratic control? Membership may run in the thousands or millions or consist entirely of other co-operatives.³ As a result, member/owners may no longer have the skill or knowledge to manage their business, requiring the services of professional managers trained for the traditional business corporation. Longevity and market success may compete with immediate member service as organizational needs or goals, suggesting that members might be best served by ensuring that co-operatives obtain sufficient financial return. Functioning in a capitalist marketplace may require infusion of capital far beyond member pocketbooks, but the co-operative rules discourage outside investors. Economic self-help may mean a broadening of business activities to either protect the core function or to gain profits to return to the members and survival may require expansion to create and meet other needs rather than contraction to fit member use.

Have these developments stretched the Rochdale model beyond recognition? The literature surveyed in Part I of this study, “Co-operatives in Principle,” reveals that co-operative ideology and governing principle have been, and continue to be, retailed to fit

² Statistics do not exist to compare co-operatives in all sectors with ordinary business corporations, but the Co-operatives Secretariat has estimated the market share of farm products marketed through co-operatives. It indicates for instance that, in 1989, 75 percent of grains and oilseeds in Western Canada were marketed through co-operatives (see Table 1, Appendix I). In absolute terms, business revenue and assets of co-operatives are outlined in Appendix I, Table 2. In Saskatchewan, for instance, co-operatives comprised 24 out of the province's top 75 companies (see “Saskatchewan's Top 100 Companies,” Saskatchewan Business, August 1991, p. 7+.) The Saskatchewan numbers would not be representative of co-operative involvement in the economy Canada-wide; according to Canadian Business Magazine, 17 co-operatives are in the top 500 of Canadian companies (see “Corporate 500,” Canadian Business Magazine, June, 1991, pp. 104-127).

³ See Appendix I. Table 2 indicates that the total reported memberships in nonfinancial co-operatives in 1989 was 3,238,000, while Table 3 counts 9,153,900 credit union and *caisse populaire* members, representing 34.6% of the population of Canada.

the changing profile of co-operatives. This has been most evident in the reformulation of the Rochdale rules by the International Co-operative Alliance, but it is also apparent in academic discussions of co-operative principle. The dynamics of the tension between the collectivist or communitarian view of co-operatives as close, actively democratic and highly ethical organizations and the more pragmatic and individualist view of co-operatives as member-driven economic enterprises surviving and often thriving in a capital-driven marketplace by adopting its management and investment techniques, have not been resolved in the literature. Views on the success of co-operative democracy, appropriate sources of capital, the role of profit and the co-operative mission itself vary widely.

Is this tension played out in co-operative practice? If so, it will be most clearly manifested in those co-operatives which either carry on multiple business activities more or less closely related to their core purpose or membership or have undertaken what may be thought of in the co-operative sector as experimental investment activities. There are two areas of exploration here. The first area focuses on examining the corporate activities the co-operative undertakes and on identifying its broad corporate goals. Information on the activities can to some extent be found in annual reports and other public documents; information on broad organizational goals must be ascertained through personal interviews. The person who best knows the intricacies of the business and who is perhaps most keenly aware of corporate goals and policy is the general manager.

The business of the larger co-operatives is now almost always run by professional managers hired from or trained outside the sector. The trend toward professional management began in the so-called consolidation phase of co-operative development which began in the 1950s and which, it has been claimed, saw the end of co-operative experimentation. This leads to the second area of exploration: the relationship of these managers with their co-operative-generated boards. What, if any, ideological or management-style conflicts exist? How are they resolved? The existing literature is for the most part silent here.

To find answers to these questions, to find out, in other words, how these co-operatives actually work as co-operatives, a qualitative study of eleven Canadian co-operatives from five geographical regions was undertaken. The co-operatives were selected on the basis of multiactivity and/or an experimental investment history. The results are reported in Part II, "Co-operatives in Practice."

In the final analysis, it would appear that the core Rochdale-model co-operative is a relatively enduring form of business enterprise capable of satisfying a broad range of

ideological and practical interests. However, the tensions generated by changing membership needs and business requirements have not been resolved and may require further refinement of co-operative principle. Enterprises founded on this model vary widely in their business practice and organization.

The fact that a number of the co-operatives in this study have been experimental in their management, business purpose and organization, or have taken financial risks in their management and investment activity, contradicts the assertion that co-operatives have long since entered a *safe* consolidative phase. Experimentation has not died. The arena in which experimentation takes place has changed: the marketplace rather than the market niche is now the playing field for those co-operatives which dominate the Canadian sector.

Part I

Co-operatives in Principle: A Review of the Literature

1. Overview

The economic and social powerlessness of workers in the late eighteenth and early nineteenth centuries inspired a variety of experiments in democratically controlled economic co-operation. The co-operative movement, as it defines and conducts itself today, originated in 1844 with the opening of the first successful consumer co-operative by the Rochdale Society of Equitable Pioneers in England. Although new forms of co-operatives continue to emerge in industrializing nations and among special-needs groups in industrialized nations, their historical continuity with these early movements is apparent.

Desire for economic advancement and control where sources of capital are weak or unavailable; a communitarian ethos which prefers the distribution of wealth on the basis of effort rather than capital and the meeting of member needs rather than the vagaries of a solely profit-oriented marketplace; and an antipathy for the excesses of capitalism: to a greater or lesser extent, these are the motives underlying the Rochdale experiment and the subsequent formation of co-operatives throughout the world. Although other forms and theories of co-operation developed in nineteenth-century Europe have influenced the co-operative movement, the principles chosen by the Rochdale weavers for the governance of their society and the conduct of their business continue to form the foundation of co-operative enterprises.

The principles of co-operation have not remained static. Reinterpretation and reformulation of the Rochdale Principles continue to characterize—and are necessitated by—the changing, multifaceted and highly self-reflective co-operative movement. The most influential statements of principle for Canadian co-operatives are those of the International Co-operative Alliance (ICA), which reformulated the Rochdale principles twice, in 1937 and in 1966. A third reformulation project was announced at its Stockholm Conference in 1988 and is to be completed by 1992.

The breadth of research, academic discussion and philosophical analysis undertaken by European and North American scholars and co-operators is considerable. Co-operative principles and activities have been scrutinized by almost every discipline. The literature embraces historical analysis, economic theory and analysis, sociological, psychological, biological and behavioural theory, legal theory, corporate structure and

management theory, and political theory. Justifications offered for co-operatives and the ideology of co-operation are based on need: the need of impoverished third-world peoples for sustenance; large western agricultural producers for more effective product marketing; women for a political and economic voice in social affairs; middle-class investors to make better use of financial resources; minority groups to define and maintain identity; people living in isolated communities to provide and retain necessary services; families for better housing; and workers for direct control of their own labour. Rationales for co-operatives embrace economic, cultural, social, nationalist and religious purpose.

The development of a theory of co-operation is complicated by the rapidity of change in its practice. For example, the increase of profit (or surplus, as it is more commonly called by co-operatives and co-operative legislation), once redolent of capitalist evils, is now viewed by many co-operators as a legitimate co-operative goal.⁴ Current co-operative theorists view profit as a legitimate co-operative goal so long as its use and distribution benefit all members equitably. The need for increased capital has spawned much theoretical debate on sources and returns consonant with co-operative principles. Democratic control takes on new meaning where membership runs to many thousands. Member service is perceived differently where the majority of users of a co-operative's services are nonmembers. Scholarly critique has embraced these and similar developments and either reconciled them with fundamental principles or interpreted the principles to fit them.

The range of activities undertaken by co-operative enterprises has continued to broaden. The small localized consumer co-operatives which first characterized the movement now comprise only one facet of co-operative enterprise. Large consumer and agricultural co-operatives still dominate the movement but, by the mid-1960s, multipurpose co-operatives, worker co-operatives, housing co-operatives and financial co-operatives were being admitted to the ICA. Federations of co-operatives have become increasingly common, as has involvement in multipurpose business activities and in the ownership of non-co-operative enterprises. Federations and confederations with interjurisdictional and international trading activities fit the Rochdale principle of co-

⁴ There is debate whether the word "profit" should appear in the co-operative lexicon. The debate is often at the theoretical level, since in practice "profit" is commonly used. For instance, in the November 21, 1991 edition of *The Western Producer* (a weekly newspaper published by a subsidiary of the Saskatchewan Wheat Pool) was a story entitled "Profit Increases for Co-operatives are Signs of Healthy Finances," (p. 6). The word "profit" is used no fewer than nine times in the story. The word "surplus," commonly said to be the preferred terminology, does not appear.

operation among co-operatives. Multipurpose or multiactive co-operatives reflect the original concept of a self-sustaining co-operative community meeting the entire range of member needs. Yet, in both scale and diversity of activity, these co-operatives challenge any rigid definition of co-operatives as local, consumer-oriented, intimately self-governed and entirely self-sustaining.

The evolution of co-operative principle is closely bound to the evolution of co-operative form. Each apparent innovation in co-operative enterprise is arguably rooted in early European experiments and embraced by the Rochdale vision of co-operative communities supplying all types of services and supported by the labour of members on their own land. However, co-operation developed extensively throughout the world, rather than intensively within local communities. The vision of a world co-operative commonwealth composed of local co-operative communities has yielded to the fact of a co-operative sector existing alongside state and capitalist enterprises. This has led to a greater diversity, in business practice as well as business purpose, than the founders of the movement could have anticipated.

Co-operative enterprises exist under regimes spanning capitalism to communism and socio-economic conditions of almost every kind. Experimentation, and the possible result, failure, are as characteristic of co-operation as is its success as a universal movement. A co-operative succeeds as an economic enterprise when it serves the needs of the members as the members perceive them to be. Whether it succeeds as a democratic, ethical, community-oriented society depends on how the concept of co-operation is characterized and defined. What is in fact common to these enterprises, and what their co-operative principles should be, has been the concern of academics and of the movement from its inception. The following is a consideration of the definition of co-operative principles, their application to various co-operative activities, and historical change in these activities. At issue is the consistency of these developments with basic co-operative principles and philosophy.

Because much of the theoretical and descriptive writing on co-operatives covers similar ground in terms of context, explanation and argument, the works cannot be readily classified in terms of their focus. Instead, a thematic format has been chosen for discussion of literature relevant to the development, definition and application of co-operative principles. Works which describe specific co-operatives, guide the formation and functioning of co-operatives or are primarily exhortative in approach, and the majority of works which set co-operative goals into specific political perspectives, have

been omitted from this review. See the Bibliography at the end of this report for a complete listing of the works on which this literature review is based.⁵

The next two sections of this report contain a relatively detailed discussion, based on the available literature, of the historical foundations which underlay co-operative enterprises and the principles which govern them. Sections four through eight contain brief overviews of the literature for their particular areas of focus, with references to more extensive quotes in the respective attached appendices.

2. Co-operative Enterprises: Origins and Influences

2.1 The Rochdale Society and the Original Rochdale Rules

Despite the claims of a number of writers that the co-operative movement originated with the Rochdale Society,⁶ most historians point to significant precursors in the socialist utopianism of St. Simon (1760-1825), Charles Fourier (1772-1837) and the British industrialist Robert Owen (1771-1858).⁷ These reformers advocated “villages of co-operation” whose members “would apply the values of equality and equity in their day-to-day relationships.”⁸ Dozens of such communities were established during the 1820s and 1830s, as were about 400 co-operative stores, but all failed during the subsequent depression. Among Owen’s followers were many of the 28 Rochdale founders. According to historian Henri Desroche, the Rochdale Society “inherited a pre-Rochdale associationism rooted in a long line of socialist experiments of both religious and secular kinds.”⁹ The Chartist suffrage movement and the economic problems of

⁵ There is an extensive body of literature dealing directly with co-operatives or relevant to the special nature of co-operatives. In fact, there are special libraries whose collections focus exclusively on co-operatives and issues relevant to the co-operative movement. Three such libraries in Canada are housed at l’École des Hautes Études Commerciales, Montréal, the Canadian Co-operative Association, Ottawa, and the Centre for the Study of Co-operatives, Saskatoon. See Appendices F and G for details on the holdings of these libraries.

⁶ For example, Beatrice Potter (Webb) in *The Co-operative Movement in Great Britain*, p. 1, claimed that “the Co-operative Movement was purely British in origin.” Potter argued that the Rochdale store initiated the co-operative consumer movement, the *purest form* of co-operation. In fact, the first co-operative in the modern sense was established at Fenwick, Scotland in 1769, 75 years before the Rochdale store. See Lord Taylor, “Scottish Co-operative Wholesale Society Centenary.”

⁷ See Holyoake, *The History of Co-operation*, pp. 28-32, and Watkins, *The International Co-operative Alliance 1895-1970*.

⁸ Craig, “Philosophy, Principles and Ideologies of Co-operatives,” p. 2.

⁹ Desroche, *Le Développement intercoopératif*, p. 100. See also Melnyk, *The Search for Community*, Chapter 5, for a discussion of the communalist tradition and the distinctive role of co-operatives within that tradition.

workers and their families caused by the Industrial Revolution are frequently cited as the two major historical forces inspiring and shaping these early co-operatives.

Formed in 1844 by a group of textile workers in Rochdale, England, the Rochdale Society's aims were as follows:

The objects and plans of this Society are to form arrangements for the pecuniary benefit and the improvement of the social and domestic condition of its members, by raising a sufficient amount of capital in shares of one pound each to bring into operation the following plans and arrangements:

1. The establishment of a store for the sale of provisions, clothing, etc.;
2. The building, purchasing or erecting of a number of houses, in which those members, desiring to assist each other in improving their domestic and social condition, may reside;
3. To commence the manufacture of such articles as the Society may determine upon, for the employment of such members as may be without employment, or who may be suffering in consequence of repeated reductions in their wages;
4. As a further benefit and security to the members of this Society, the Society shall purchase or rent an estate or estates of land, which shall be cultivated by the members who may be out of employment or whose labour may be badly remunerated;
5. That as soon as practicable, this Society shall proceed to arrange the powers of production, distribution, education and government, or in other words, to establish a self-supporting home Colony of united interests, or assist other Societies in establishing such colonies;
6. That for the production of sobriety, a temperance hotel be opened in one of the Society's houses as soon as possible.¹⁰

The rules governing business practice are contained in various Society documents: the statutes of 1844, titled "Laws and Objects of the Rochdale Society of Equitable Pioneers, Rochdale 1844," which consisted of 34 articles (in fact, due to double numbering, there were 36); the Amendments of 1845; and the "Statutes Adopted by the

¹⁰ Saxena, *Evolution of Cooperative Thought*, p. 26.

General Assembly of the members on 23rd October, 1854.”¹¹ These have been summarized by Professor K.K. Saxena as follows:

1. Religious and political neutrality;
(it is recorded in the 1860 almanac of the rules of conduct of the Rochdale Society that the present Co-operative Movement does not intend to meddle with the various religious or political differences which now exist in society; but by a common bond, namely, that of self-interest, to join together the means, the energies, and the talents of all for the common benefit of each);
2. To sell goods at the prevailing market prices;
3. All transactions should be on the basis of cash sales. No credit;
4. The capital should be provided by the members and should bear a fixed rate of interest. The interest should be charged on profits;
5. Profits should be distributed *pro rata* upon the amount of purchases made by each member (after meeting the expenses and interest charges);
6. Each member was allowed to vote—but one vote only. (This has been popularly termed as the principle of one member one vote);
7. Open membership [although this was in fact limited: a prospective member had to prove good character, prove absolute honesty, and find two members to propose him as worthy of membership in the co-operative¹²] and also equality in membership rights to both sexes;
8. The management should be in the hands of elected office-bearers and committees to be elected periodically;
9. Only pure and unadulterated goods were to be sold;
10. A definite percentage of profits should be allotted to education;
11. Frequent meetings of members to be held for discussion, and for improving the welfare of the Society’s members;

¹¹ Lambert, *Studies in the Social Philosophy of Co-operation*, Appendix II.

¹² Saxena, *Evolution of Cooperative Thought*, p.65.

12. Frequent statements and balance sheets to be presented and accounts to be kept and properly audited.¹³

The original principles were described by Professor Christopher Axworthy, then Associate Professor of Law at Dalhousie University, as follows:

These principles were that membership in the Society would be open to all—it would be controlled democratically. A limited amount of interest was to be paid on capital, and, in the event of a surplus in any trading period, this was to be distributed to the members in relation to their purchases. Goods were to be sold on a cash basis solely, because of the difficulties caused by credit, and were to be sold at the current retail price....The goods sold were to be of good quality....There was to be a reserve fund set aside for educating members and non-members in the ways of the Society, and political and religious neutrality was to be observed.¹⁴

Some writers suggest that a total of eight principles were *spelled out* in the original Rochdale Charter.¹⁵ Other sources list nine.¹⁶

The Society's first enterprise was a store supplying flour, butter, sugar and oatmeal to its members, but it very soon established a corn mill, manufacturing societies, a health and burial society, and a building society; it also provided libraries, reading rooms and university extension classes.¹⁷ By the 1850s, the Society was acting as wholesaler for other co-operatives. By 1863 its membership totalled 4,013. By 1880 it was 10,613.¹⁸ In 1877, the Manchester Wholesale Society, the Rochdale wholesale arm, was serving 588 societies with 273,351 members.¹⁹

¹³ Ibid., p. 27-28.

¹⁴ Axworthy, "Consumer Co-operatives and the Rochdale Principles Today," p. 138.

¹⁵ Melnyk, *The Search for Community*, p. 5.

¹⁶ See, for example, Government of Ontario, *The Report on Co-operatives by Select Committee on Company Law*, which lists the Rochdale Principles as being:

1. Open membership.
2. Democratic control (one-member, one-vote)
3. A fixed low rate of interest on capital
4. Distribution of surplus, after payment of interest and expenses, to members in proportion to their purchases
5. Cash trading
6. Sale of goods at retail prices
7. Provision for education
8. Selling only pure and unadulterated goods
9. Political and religious neutrality.

¹⁷ Saxena, *Evolution of Cooperative Thought*, p. 29.

¹⁸ Ibid.

¹⁹ Melnyk, *The Search for Community*, p. 7.

The success of the Rochdale Society, and the swift spread of consumer co-operatives based on the Rochdale model throughout Britain, Europe and North America, demonstrated two things: 1) the practicality and attraction of the particular combination of rules selected by the Society's founders from the variety of co-operative experiments which preceded it and 2) "more or less acceptance of the new industrial system and an attempt to make the best of the conditions it imposed."²⁰

Over time, the Rochdale aims and rules gained the status of *co-operative principle*, but the *principles* were in fact scattered through various corporate documents and inaccessible to the vast majority of co-operatives. Many of the original rules governing the Rochdale enterprises were not followed elsewhere. The interpretation, application and emphasis of the rules varied widely and by 1930 the need for their restatement and reformulation had become evident. The task was undertaken by the International Co-operative Alliance. This is discussed below in the section on "Co-operative Principles."

Two other European movements contributed to the contemporary co-operative movement, the co-operative savings and credit union movement and the workers' co-operative production movement.²¹ The co-operative savings and credit union, the basis of the Canadian credit unions and *caisses populaires*, first appeared at the end of the 1840s in Germany and developed throughout the remainder of the century in two parallel streams. The first was that devised by Franz Schulze-Delitzsch for artisans' societies, and the second by Friedrich Raiffeisen for rural communities. Throughout the nineteenth century, these credit unions formed cohesive second-tier federations and attracted the formation of co-operative enterprises for the marketing and distribution of consumer goods and joint purchasing of agricultural and industrial goods.

The Raiffeisen-type workers' co-operative production society, begun in France, opposed industrialization and sought worker control by using surplus wages to acquire the means of production. Although well underway by 1848, it remains a relatively new and untried co-operative type in Canada.²² Incidental to these movements was the establishment of a number of planned communities—essentially housing co-operatives—in Britain and France.

²⁰ Watkins, *The International Co-operative Alliance 1895-1970*, p. 6.

²¹ Ibid.

²² The International Raiffeisen Union (IRU) claims that over 650,000 co-operatives in more than a hundred countries are based on the principles of Friedrich Wilhelm Raiffeisen. See IRU, *Co-operative Guidelines*, p. 5.

Due to the efforts of expatriots returning from political asylum in Britain during the 1850s, the Rochdale model began to replace the simpler models initially chosen by the founders of these continental movements. Although it was not the first experiment in secular co-operation, the Rochdale Society proved itself in many ways to be the first successful one. Its *principles* continue to inform co-operative definition and legislation in Canada, Britain, the United States, and several other countries.

2.2 The Co-operative Movement in Canada

The co-operative movement in nineteenth-century Canada was a result of the same industrializing forces which prompted the formation of European societies. The goals of early Canadian co-operatives were to provide capital for better equipment so workers could compete in a technologically expanding economy and to provide the security of group activities for mutual economic gain.²³ The first co-operatives were the pragmatic response of groups of rural agricultural producers, inspired by American co-operatives and informed to some extent by immigrants with European co-operative experience. In addition to agricultural co-operatives, mutual insurance companies were set up and urban worker councils established a range of co-operative enterprises which included labour-owned factories and stores. All were short-lived due to various factors: errors in management, recruitment and capitalization; lack of communication between co-operatives; and, in general, lack of co-operative expertise.

During this period, the co-operative movement in Canada became closely entwined with agrarianism, which encompassed a rejection of urban evils, a belief that farm life was at its basis co-operative, and a preference for the small community in control of its economic and social life. Despite the failure of all these early co-operatives, the co-operative principles became widely known, as noted by the Co-operatives Future Directions Project:

The late 19th century saw extensive experimentation with co-operative activity—mostly experiments with failure.... Nevertheless, co-operative methods and ideology had become known and the preoccupation with industrialism, urbanization and morality would be basic to the Canadian movement.²⁴

The first real gains for co-operation in Canada were the establishment of the prairie wheat pools. By 1914, co-operative elevator companies were established in Saskatchewan and Alberta and by 1920 they were marketing one-half of the prairie grain

²³ Co-operatives Future Directions Project, *Patterns and Trends*, p. 9.

²⁴ Ibid.

crop. Their success encouraged the formation of agricultural marketing co-operatives throughout the country. Consumer co-operatives formed during this period were also successful but experiments with housing and worker co-operatives were not. Co-operative banking, despite the success of the Quebec *caisse populaire* movement, remained frustrated, in part because of inadequate federal legislation.²⁵

Two competing co-operative strategies or philosophies emerged during this period: 1) the belief that a few large-scale co-operative organizations, powerful enough to affect the overall economic structure, should be the movement's goal and 2) the belief that co-operation is a social philosophy learned and expressed in daily life at the community and family level, requiring smaller localized consumer-oriented co-operatives.²⁶ Although the dispute was pragmatically resolved by the mid-1920s when acceptance of, and co-operation between, all levels and types of co-operatives received increasing stress, these themes remain apparent in the Canadian movement. The related issue of centralism versus localism remained unresolved for several decades more.

The large Canadian co-operatives survived the Depression, and the wave of economic activity which followed included the establishment of new co-operative types providing such services as housing, health care, transportation, electricity and recreation. The agrarian movement lost its fervour. The pragmatic need to provide services through pooled purchasing power and systematic marketing focussed the attention of mainstream co-operatives on profitability.²⁷ Greater need for control of financial systems was apparent from experiences of the Depression era.

The closing of a large number of branches of the Ontario-based banks—already resented in the West for their high interest charges and conservative loan policies—and the foreclosing of farm mortgages convinced co-operative leaders of the need for “control of the sparkplug” in the form of locally responsive financial institutions.²⁸ The aim was to establish “an integrated financial network able to influence the entire Canadian economy.”²⁹ Centralism and the vision of large-scale co-operatives co-existent with smaller, localized enterprises became a strong focus of the movement. The result was the establishment of the credit union system, followed by credit union centrals for the regional movement of capital, and insurance and trust programs for capital sources and

²⁵ Ibid., p. 16.

²⁶ Ibid., p. 20.

²⁷ Ibid., p. 33.

²⁸ Ibid., p. 34. See also MacPherson, *A Very Special Trust Company*, p. 9.

²⁹ Co-operatives Future Directions Project, *Patterns and Trends*, p. 36. The Mouvement Desjardins founded in Québec at the turn of the century was similarly inspired. See Part II of this study.

financial services which the smaller credit unions could not provide. These institutions were in place by the 1950s, although their influence was not apparent until a decade or so later.

The changing Canadian economic environment discouraged co-operative utopianism. As the Co-operatives Future Directions Project noted:

The Canadian co-operative movement lost much of its ideological edge in the late 1940s and 1950s. The agrarians and Marxists were out, utopians and social democrats were declining, the religious activists lost their momentum, and the 'co-operative sector' provided direction without passion. As Canadian society became less ideological and more materialistic, the Canadian co-operative movement became more cautious and less controversial.³⁰

As a result of the establishment and consolidation of large co-operative enterprises operating with caution in a capitalist environment, Marxists, social democrats and utopians began to lose interest in the movement as a means of effecting broad social change. The co-operatives themselves preferred it this way. For example, the Department of Co-operation and Co-operative Development, instituted in Saskatchewan by the Co-operative Commonwealth Federation (CCF) in 1944, later to become the CCF-NDP and then the New Democratic Party, was spurned by the co-operatives: they "resented coercive government intervention and insisted upon total independence."³¹ As a result, the CCF turned its attention to other avenues of social reform.

The concept of a co-operative sector, as opposed to a co-operative commonwealth, and the theory of co-operation as modified capitalism took firm root in Canada during this period. The change from a more or less ideological base to a more pragmatic base concerned with consolidation and economic survival was not unique to Canada. It was also the condition of the mainstream of the world co-operative movement. The period from 1950 to the present is therefore characterized by Canadian writer George Melnyk as "post-Rochdale."³²

2.3 The Movement After 1950

The Rochdale Society represents a watershed in the history of co-operatives. According to Melnyk, the history of the movement is divisible into three phases. The Utopian phase, with its vision of a return to the small agrarian community, lasted from about 1800 to 1850. This, according to Melnyk, was the vision reflected in the original

³⁰ Ibid., p. 37.

³¹ Ibid., p. 36.

³² Melnyk, *The Search for Community*, p. 15.

Rochdale principles. The Rochdale-movement phase, from 1850 to 1950, was the period during which co-operative institutions and enterprises spread and the co-operative system was established throughout Europe, North America and other areas of the world. The post-Rochdale, or systems, phase which began about 1950 is characterized by the replacement of the earlier ideological fervour with a concern for management and systems.³³

Canadian sociologist Jack Craig notes that for European and North American co-operatives, the 1950s was an era of such “dramatic” growth and development that “the new basis of management looked to the academics and consultants for models.”³⁴ The private sector became the source of management models based on profit-seeking. Craig characterizes the current phase of co-operative development as one embracing a variety of ideologies which stem from different social movements and from the specific nature and goals of the individual co-operative. The current concern with managing and consolidating, along with the lack of a clear single social mandate, has inspired challenge—from within the co-operative sector for a return to the fervour of earlier years and from outside the movement, in the form of a renewed interest in communitarian societies.

Although Melnyk himself argues for what is essentially a new utopian model for co-operatives, a model which incorporates characteristics from all co-operative traditions, he recognizes that the mainstream of the Canadian co-operative movement follows the traditional Rochdale form. He further argues that adaptations to the requirements of various co-operative types and the organization of multitiered co-operatives are not deviations from the Rochdale type but were embraced by the original Rochdale concept itself. He characterizes the Canadian co-operative movement, and the Rochdale movement in general, as “liberal democratic,” defined in terms of its relationship to capitalism:

The essence of liberal democratic co-ops is successful competition with capitalism through short-term and immediate benefits to its members. This pragmatic approach appealed to the person’s self-interest rather than to his idealism and it demanded a reconciliation between the co-operative and the private sectors.³⁵

The characteristics of the Rochdale-style co-operative which distinguish it from co-operatives in the Marxist, socialist and communalist traditions are, according to Melnyk,

³³ Ibid., p. 6.

³⁴ Craig, “Philosophy, Principles and Ideologies of Co-operatives,” p. 6.

³⁵ Ibid., p. 17.

emphasis on private property, a basic tolerance of capitalism and a pragmatic unifunctionalism which permits the co-operative to affect the lives of members in only one of their many social roles and to focus on resolving a single economic issue rather than the system as a whole.³⁶

Melnyk recognizes that these characteristics, while not necessarily the vision of the Rochdale founders, “evolved out of the Rochdale model during the nineteenth century and have come to define most of the co-operative institutions prevalent in Western Europe and North America.”³⁷ The success of the Rochdale model, by contrast with other models attempted in similar economic environments, was a direct result of this tolerance of capitalism. As Melnyk notes:

Co-operative tolerance of capitalism was a necessity that turned into a virtue. It was their pragmatism that made Rochdale-style co-ops popular and successful. They did well in the marketplace and so they had no reason to fight for its elimination. Their members joined co-ops not to end capitalism but to improve their personal economic situation. Liberal democratic co-ops were integrated into the dominant system right from the start.³⁸

The relationship between the development of the co-operative movement and the state is discussed in greater detail below in the section dealing with state-co-operative relations. It is sufficient here to note disagreement with Melnyk’s suggestion that the vision of the Rochdale founders embraced the elimination of property and the suggestion that the development of liberal democratic forms and goals is a departure from this vision.³⁹ This has implications for the style of business and management of contemporary co-operatives. As Melnyk suggests, “The modes of operation and labour relations developed by capitalist firms became part of co-operative reality as well.”⁴⁰ This idea is explored in a subsequent section dealing with recent developments in co-operative enterprises and management.

The issue now to be addressed is whether the development of the Canadian—or western—co-operative movement is consistent with Rochdale co-operative principles *per se*.

³⁶ Ibid., pp. 15-17.

³⁷ Ibid., p. 15.

³⁸ Ibid., p. 17.

³⁹ See, in particular, Ekelund, *The Property of the Common*. Ekelund argues that the Rochdale vision was essentially liberalism (as originally envisaged) turned against liberalism, not socialism or collectivism turned against capitalism and that the original Rochdale co-operative concept of property is entirely consistent with liberal principles.

⁴⁰ Melnyk, *The Search for Community*, p. 7.

3. Co-operative Principles

The co-operative movement is largely represented by the International Co-operative Alliance, formed in 1895 for the promotion of co-operation. Its national branches in each member country are composed of elected representatives from the co-operative sector. ICA member countries have grown from 12 in 1895 (representing eight European countries including Russia, Australia, India, the Argentine and the USA)⁴¹ to 79 in 1991.⁴² The ICA presently represents eight international organizations, 191 national organizations and almost 700 million individual members.⁴³ Canada became a member country in 1922 but sent no delegates until 1951.⁴⁴ Canadian co-operatives are represented by the Canadian Co-operative Association, formed in 1987 by the amalgamation of the Co-operative Union of Canada and the Canadian Co-operative College.

The first International Co-operative Congress in Vienna in 1930, attended by delegates from 35 countries, dealt with a resolution submitted by the French National Federation of Consumers' Co-operatives which stated:

The Congress of the International Co-operative Alliance asks the Central Committee to appoint a Special Committee to enquire into the conditions under which the Rochdale principles are applied in various countries and, if necessary, to define them.⁴⁵

The accompanying memorandum noted that reference to the principles was “being used excessively to restrict the examination of the new problems arising from the unceasing development of commerce and industry, problems which a century before had neither the same aspect nor the same dimensions.”⁴⁶ It was necessary to find out how the principles were interpreted by the various national movements and to reach agreement on how they should be interpreted in view of the difficulty of solving problems with rules nearly a hundred years old. However, the chief purpose of the proposal for the definition—or redefinition—of the Rochdale principles was, according to the mover of the resolution,

⁴¹ Watkins, *The International Co-operative Alliance 1895-1970*, p. 31.

⁴² International Co-operative Alliance. *Annual Report 1990-91*, p. 9.

⁴³ Ibid.

⁴⁴ Co-operatives Future Directions Project, *Patterns and Trends*, p. 136.

⁴⁵ Watkins, *The International Co-operative Alliance 1895-1970*, p. 171.

⁴⁶ Ibid.

“to obtain what had never yet been obtained, a correct and complete list of the principles of Rochdale.”⁴⁷

The resolution was adopted by the ICA Congress. The results of the Special Committee were presented to the London Congress of 1934 and included seven Rochdale principles (see below). After inconclusive debate, and further study of co-operative types other than consumer co-operatives, a revised report was made by the Special Committee to the Paris ICA Congress in 1937. The broad conclusion of the report was that modern industrial and commercial developments did not invalidate the seven Rochdale principles but a less rigid interpretation was necessary for those forms other than the simple consumer co-operative. The report reaffirmed the seven principles presented to the 1934 congress. Four of the principles were deemed essential to determine the co-operative nature of any organization:

- (1) open membership;
- (2) democratic control;
- (3) distribution of the surplus to the members in proportion to their transactions (replacing and broadening the original concept of dividend on purchase); and
- (4) limited interest on capital.⁴⁸

The remaining three principles, according to the report, “while undoubtedly part of the Rochdale system and successfully operated by the Co-operative Movement in the different countries are, however, not a condition for membership of the ICA.”⁴⁹ These are:

- (5) political and religious neutrality;
- (6) cash trading; and
- (7) promotion of education.⁵⁰

The report also rejected the *principles* of trading exclusively with members, voluntary co-operation (as state-owned co-operatives in Russia, for example, were not voluntary), sale at current or market prices (as certain co-operatives were large enough to set or affect pricing), and the disposal of collective assets. The Special Committee saw these as valuable practices in certain circumstances but not determinative of a co-operative’s genuineness. The report was adopted by the ICA Congress of 1937.

⁴⁷ Ibid.

⁴⁸ Ibid., p. 204.

⁴⁹ Watkins, *The International Co-operative Alliance 1895-1970*, p. 204, citing the Report of the Special Committee to the ICA Paris Congress of 1937.

⁵⁰ Ibid.

At the ICA Congress of Bournemouth in 1963, a Soviet delegate proposed a resolution for the further reformulation of the Rochdale principles. The delegate contended that, in framing their rules and principles, the Rochdale Pioneers had to adapt their methods to capitalist conditions, resulting in, for example, the distribution of dividends. The principles were no longer universally valid, nor were they universally applied. Resolutions passed by the Congress included:

To constitute an authoritative commission to formulate the fundamental principles of activity of co-operation under modern conditions;

To empower the Commission to study which of the principles of the Rochdale Pioneers have retained their importance to the present time; which of them should be changed, and how...and, finally, which of them have lost their importance and should be substituted by others;...⁵¹

The Commission reported to the Second ICA Conference at Vienna in 1966.

From the Commission's empirical findings on the current state of co-operatives, three points emerge. First, there is concurrence on the aim of co-operation as "the creation of a working community in which all men have an equal status and in which no one benefits at the cost of another."⁵² Second, all co-operatives "entertained the highest regard for the rules and methods of Rochdale which they try to follow to the greatest possible extent."⁵³ Third, all had "to recast one or more of these rules and practices in order to realize more fully the aims of the Co-operative Movement in their own particular circumstances."⁵⁴ The restatement of the Rochdale Principles, now numbered as six, was adopted. In doing so, the ICA Congress accepted "that, while there can be differences of opinion as to emphasis or degree, the report is a significant statement of co-operative principles in a modern setting."⁵⁵ The recommendations and conclusions were approved as follows:

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

⁵¹ Ibid., p. 322.

⁵² Watkins, *The International Co-operative Alliance 1895-1970*, p. 204, citing ICA, *Report on Cooperative Principles*.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ ICA, *Report on Cooperative Principles*, p. 35.

2. Co-operative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.
3. Share capital should only receive a strictly limited rate of interest, if any.
4. Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:
 - (a) By provision for development of the business of the Co-operative;
 - (b) By provision of common services; or,
 - (c) By distribution among the members in proportion to their transactions with the Society.
5. All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.
6. All co-operative organizations, in order to best serve the interests of their members and their communities should actively co-operate in every practical way with other co-operatives at local, national and international levels.⁵⁶

These are the formal principles presently governing the international co-operative movement. They represent or reflect three things: the actual practice of co-operatives; the minimal requirements defining a co-operative for the purposes of the ICA; and the attempt of the movement to set and maintain a particular standard of operation.⁵⁷ Hans-H.

⁵⁶ Ibid., p. 33.

⁵⁷ See Munkner, *Co-operative Principles and Co-operative Law*, pp. 7-8. Munkner also states, "as a result the traditional 'principles' of cash trading, purity of goods and political neutrality have been struck off the list of co-operative principles. Distribution of surplus (economic results) among the members in form of bonus or dividend on purchases or sales, too, is no longer officially listed as a co-operative principle because it is beyond doubt that societies which do not pay dividend or bonus on transactions with the co-operative enterprise may still be genuine co-operative societies. The same is true for the payment of interest on share capital."

Munkner, a European theorist, describes the *test of co-operative principle* as applied by the ICA:

If a given system of ideas is considered to represent the basic concept of co-operation, the test to distinguish co-operative principles from modes of action, business methods or practices is to ask whether the standard in question is directly implied in or related to one of these basic ideas and, therefore, cannot be changed without detriment to the cooperative character of an organization; or whether the standard in question can be replaced by other standards without interfering with one of the basic ideas and, thus without contradiction to the basic concept of cooperation.⁵⁸

It is noteworthy that these principles make no mention of appropriate aims or business objects, nor do they discriminate between types or levels of co-operative activity.

At the 1988 Stockholm Congress, the ICA asked its member organizations to begin their own review of basic co-operative values, as a preliminary to a final report to be presented to the 1992 ICA Congress in Japan. The restatement of co-operative principles is ongoing, as co-operatives deal increasingly with the issues of state relations and democratic control in large organizations and with problems involving economic efficiency—capitalization, profit and service to nonmembers.

4. Co-operatives and the State: Autonomy, Democracy, and State Intervention

(See also Appendix A of this paper, which provides excerpts of the works of various writers on the topic of co-operative–state relations.)

The relationship between co-operatives and the state is both direct and indirect. The political, economic and social environment in which a co-operative evolves affects its form, structure, function and ideological perspective. The co-operative ideals or principles of self-help, democracy and political neutrality require a maximum of self-regulation and financial autonomy and a minimum of state regulation and state support. The degree to which these principles are expressed corresponds to the freedom generally accorded by the state to business enterprises.

Key to understanding state–co-operative relations are the co-operative principles of democracy, open and voluntary membership and universal suffrage. Democracy, the fundamental distinction between co-operative and ordinary business or state enterprises, may be of reduced attraction in a society with many avenues for its exercise. The major importance of the principle may be less the fact that all members can vote irrespective of

⁵⁸ Ibid.

their financial stake in the co-operative, than the fact that it insures the autonomy of the co-operative from outside control. According to the International Co-operative Alliance Commission on Co-operative Principles, “democracy in the management of co-operative organizations necessarily implies autonomy in the sense of independence of external control.”⁵⁹

A second key is the fact that the Rochdale Society was a consumer co-operative. This has two consequences. First, it means that the founding principles require refinement when applied to other co-operative forms, in particular those whose business may require closer government relations. The *boutique* or *alternative* co-operative, which most closely recapitulates in form the original Toad Lane store, represents only a fragment of the movement. Second, it means that the co-operative pooling of financial resources—the material essence of the movement—is intended to improve the personal finances and economic power of the members.⁶⁰ This mutuality of self-help is closely related both to the democratic structure of the Rochdale-type co-operative and to the autonomy of co-operatives in relation to government funding and control. Co-operatives do not view themselves as charitable agencies or (in North America and Europe at least) as tools of state-planned economic development. Where government has had a strong hand in development and financial support, the aim, as far as the co-operative movement is concerned, is for the co-operative to become swiftly self-sustaining, or at least to divorce such financial support from internal management and control.

A third key is the universality of the co-operative movement. Political change and the type of society—communist or democratic, developing or developed—influence the degree of autonomy, the legislative regime, and the particular focus and form of co-operative activity. Outside of communist and developing countries, where the state has been intimately involved in co-operative development, a high degree of autonomy is sought. Because co-operatives for the most part view themselves as autonomous, politically neutral, self-helping and democratic, the primary support for individual co-operatives—both in financing and in organization and training—is intended to come from within the organization and the co-operative sector.

The Canadian co-operative movement has “traditionally insisted upon as much autonomy from state control as the private sector, if not more.”⁶¹ A common view is that

⁵⁹ ICA, *Report of the ICA Commission of Co-operative Principles*, p. 20. For more from the ICA Report, see Appendix A, item 3(b).

⁶⁰ For more on economic benefits to co-operative members, see text at p. 31 and Appendix D.

⁶¹ Laycock, “Level and Style of Government Intervention,” p. 280. The Raiffeisen-type co-operatives, which are common in continental Europe, also rank autonomy from the state as a high priority. One of

co-operatives should be self-generating and self-sustaining since close state monitoring and control would pervert co-operative goals. Definition, assistance and regulation (except for serious irregularities), in the view of the movement, is the prerogative of the co-operative sector. The co-operative movement has traditionally looked inward for self-help solutions, rather than to state or private institutions. Accordingly, guidance and advice should ideally be given only at the request of a co-operative or the co-operative sector: co-operatives should lead, and government follow, in matters of state-co-operative policy. Legislation should provide a minimal framework which respects co-operative autonomy and reflects the unique structure of co-operatives without embodying restrictive rules and definitions: co-operative legislation should be enabling rather than regulatory, as it is for private-sector enterprise.

5. Democracy and Control in Co-operative Enterprises

(See also Appendix B of this paper, which provides excerpts of the works of various writers on the topic of democracy and control.)

The co-operative movement embraces a wide variety of business structures and goals. Co-operatives differ in size, area served, affiliation, legal status, financial structure, membership, and function. Despite some conflict between preferences, for example, for *alternative* or *entrepreneurial* co-operatives, argument that consumer co-operatives are the only true co-operatives, and differing opinions about the success of democracy in large or multitiered co-operatives, there is no justification in co-operative theory for preferring any single type as being superior or more *real* than another.

The co-operative movement since its Rochdale origins has aimed at the reform of the economic structure of society. Initially, it was thought that this would be achieved through the multipurpose community co-operative: a locally based, multifunctional, intimately self-governed organization meeting all or most community needs for goods, services, marketing outlets, education and socializing. While such co-operatives exist and continue to be promoted in rural areas, the greatest economic impact of the co-operative movement has come from large vertically organized federations and from the huge Pools

the principles of the International Raiffeisen Union is self-administration, which is described in these words:

“Self-administration means that the members organize the internal conditions of their co-operative society themselves and thereby protect it from external influences. This means that internally the co-operative is not subject to any third party’s orders, (e.g. the government or other authorities).” [IRU, *Co-operative Guidelines*, p. 9]

For more on co-operative-state relations, see Appendix A of this report.

and similar centralized, consolidated multifunctional, or *aggregate*, enterprises. Although there is a strong place in the movement for experimental enterprises which are more or less closely self-governed, growth is an irreversible fact. New forms of member integration and information continue to be developed to enhance participatory decision making in large co-operatives.

The responsibility for informed participation lies with the member-owners of a co-operative. Co-operatives, as the movement frequently stresses, exist to meet member needs; consequently, members have an obligation to keep informed and to maintain their control. These powers may be delegated to a board of directors, which in turn may delegate execution of policy to the management. Despite delegation, ultimate authority belongs to the members. “The essence of democracy,” as theorist Paul Lambert states, “is that it makes it possible—and I emphasize the word possible—for an opposition to express itself at any time.... For long periods the members may appear to be sunk in apathy, but once a newcomer turns up and starts to make sensible criticism of the management, he soon finds a ready hearing and support. This is the fundamental Rochdale principle, which is vital to the continued existence of the movement.”⁶²

Expansion and the fact of member alienation in large organizations place an increasing burden on all parties to refine voting and consultative structures and to improve communication. Facilitation of member communication has been viewed as a major challenge of the movement since the 1970s. Since the mid-1980s, it has been viewed as a responsibility of the board and management.

The co-operative model of participatory democracy is premised on, and facilitates, the exercise of responsibility by all members jointly for action taken by the co-operative. A number of different structures for voting, delegation, committees and information flow have been developed to supplement the minimal legal requirement of the annual meeting. In some cases, these have been highly successful in bringing member interests before the boards and in increasing member participation. In other cases, such developments have not kept pace with the rapid growth of the organization. The result has been criticism of the co-operative democratic process and of the lack of idealism evidenced by the willingness of members to benefit financially with minimal participation in the workings of the co-operative.

Co-operative enterprises compete with private enterprises; economic efficiency is therefore a central co-operative goal. Co-operative democracy, while it imposes certain

⁶² Lambert, *Studies in the Social Philosophy of Co-operation*, p. 73. For more of Lambert’s comments, see Appendix B, item 2(d).

strictures on the organization, “does not and cannot mean inefficiency and mismanagement.”⁶³ Management experience, if it is not found in the co-operative, may have to come from the private sector. Once viewed as incompatible with co-operative principles of democratic administration and control, the hiring of professional managers with technical expertise gained in private enterprise is now commonplace. The board is encouraged to provide the co-operative model and the co-operative theory which the management is expected to follow.

In large-scale, multitiered or professionally managed co-operatives, direct participation in democratic management becomes indirect democratic control. So long as the structure makes democracy possible, democracy is viewed as a reality even where the majority of members are inactive.

6. The Capitalization of Co-operatives

(See also Appendix C of this paper, which provides excerpts of the works of various writers on the topic of capitalization in co-operatives.)

Canadian co-operatives developed within the economic tradition of Western capitalism. It was not capital *per se* to which the Rochdale founders objected, but the domination of economic relations by capital and profit rather than by the people involved in those relations. The pooling of member resources to create capital is a fundamental co-operative idea. It is balanced by the principle of a fixed return on member investment (although payment of interest is no longer required by official co-operative principle, it is viewed as a practical necessity) and by granting only one vote to each member regardless of financial stake.⁶⁴ Co-operative law and policy have closely paralleled developments in business practice and corporate law. The need to succeed as business enterprises in a profit-oriented and competitive marketplace has meant that self-capitalization through member stakeholdings may not be sufficient. Capitalization is a constant problem, in Canada as elsewhere, and the problem is aggravated by the unattractively low returns specified in Canadian legislation. Capital contribution is linked to membership and fluctuates accordingly.

The International Co-operative Alliance has identified three common sources of capital: member share capital, capital owned by the co-operative in the form of reserve

⁶³ Munkner, *Co-operative Principles and Co-operative Law*, p. 47. For more by Munkner, see also Appendix B, item 2(p).

⁶⁴ This may vary. For example, in multitiered co-operative federations, a member may have more than one vote, depending on the size of the organization represented. Appendix B, No. 1, provides more detail on co-operative forms and types.

and special funds over which the members have no claim, and loan capital borrowed from members, other co-operatives or banks. “The time may even come,” the Commission noted, “when, under the stress of competition and the urgent need to extend their structures and renew their equipment, the national movements will be unable to finance their operations without attracting capital from outside.”⁶⁵ Indeed, the national movement in Canada, as represented by the Canadian Co-operative Association, passed a motion at its 1989 Annual Meeting which recognized a broad panoply of potential capital sources, including possible equity investment from outside (i.e., nonmembers).⁶⁶ So long as democratic control is assured to the membership, external equity capital is generally not viewed as contrary to co-operative principles, although there is no universal agreement on the issue.⁶⁷ Falling short of reliance on external equity capital, but a move in that direction, is the developing trend toward joint ventures between co-operatives and non-co-operative businesses, often in the form of equity ownership in ordinary business corporations.⁶⁸ Ideally, however, financing would come from within the co-operative sector. Self-financing co-operatives in the final result will be in the strongest economic position. In order to further this goal, many co-operatives have established subsidiary private companies in order to compete more effectively.⁶⁹

⁶⁵ Saxena, *Evolution of Cooperative Thought*, p. 69, citing the *Report of the ICA Commission on Co-operative Principles*. See also Appendix C for more on capital formation and co-operatives.

⁶⁶ For the complete CCA resolution on capital formation in co-operatives, see Appendix C, item (o). See also Appendix C, item (q), which provides an excerpt entitled “Captial” from CCA’s *Triennial Congress Executive Summary Reports*. This work was prepared by a “Panel of Experts” for the Canadian Co-operative Association, which considered some fundamental questions about capital and co-operatives and made recommendations about methods of capital formation.

⁶⁷ Recently, Chief Executive Officer Milt Fair of the Saskatchewan Wheat Pool suggested that nonmember equity capital should be considered as a means of acquiring capital to enable the pool to meet its requirements. In a report of an interview with Mr. Fair the December 14, 1991 edition of *The Western Producer* states, *inter alia*, the following: “Saskatchewan Wheat Pool is facing some tough corporate choices as it tries to prosper in a faltering farm economy, says chief executive officer Milt Fair. And he said the pool is looking seriously at the idea of turning to private investors to help put the company’s finances where they should be. ... ‘We have hired a consultant and are actively exploring capital accumulation alternatives,’ Fair said. ‘Clearly one of the ways is to go to the public.’ ... Fair said he doesn’t believe the membership would object to private investment in the company’s operations, as long as they retain control of the pool’s business and agriculture policy.”

⁶⁸ See Part II of this study.

⁶⁹ *Ibid.*

7. Co-operatives and the Profit Motive

(See also Appendix D of this paper, which provides excerpts of the works of various writers on the topic of co-operatives and profit.)

Surplus earnings of co-operative enterprises may be retained or paid out in the form of patronage dividends based on the value of member transactions with the co-operative. Although payment of dividends is no longer a requisite co-operative principle, it remains a common feature of Western co-operatives because it ensures the equitable distribution of gains arising out of common activity. The International Co-operative Alliance now refers to these gains as “economic results,” in order to avoid the old argument over whether surplus is—or is not—profit.

The purpose of co-operatives is the promotion of the economic interests of the members by pooling what might otherwise be economically insignificant resources and by ensuring that all members benefit equitably therefrom. Economic efficiency is a fundamental co-operative theme. As an economic enterprise, a co-operative must have as its objective the earning of a surplus or profit. As the Chairman of the British Co-operative Development Agency noted, “There is nothing immoral, in my view, in the individual acquiring wealth through membership of a co-operative. Indeed that is what the co-operative is largely for. It is not the acquisition of wealth that is immoral in the eyes of co-operators; what *is* unacceptable according to co-operative principles is the acquisition of wealth through the exploitation of others.”⁷⁰ Co-operatives are, properly, profitable businesses. Co-operatives invest in a wide variety of enterprises, often through subsidiary corporations, either wholly or partly owned, for the purpose of providing a profitable return for the co-operative and, ultimately, its members.⁷¹ A paragraph in a recent member newsletter of a major co-operative reports on such an investment. It states:

New store openings and a marketing philosophy based on full-fledged bakery supply service has resulted in product sales growth for Northco Foods, the parent company of Robin’s Donuts. This sales base provides an excellent return for the [Saskatchewan Wheat] Pool and for CSP Foods [a Saskatchewan Wheat Pool subsidiary], which supplies products to Robin’s Donuts stores.⁷²

It is also important to recognize that many co-operatives operate on a not-for-profit basis where profit, or surplus, is irrelevant to its goal. However, these co-operatives,

⁷⁰ Oram, “The Principles and Practice of Co-operation in Rural Areas,” pp. 5-6. For more from Oram, see Appendix D, item (e).

⁷¹ See Part II of this study.

⁷² “Subsidiaries 1990-91 Highlights,” *Pool Today*, December 1991, p. 6. See also Part II of this study regarding the Saskatchewan Wheat Pool.

which include health-care and day-care co-operatives, must still seek economic efficiency because, in order to survive as an organization, they must be able to provide needed services to members in an economically viable manner.⁷³

8. Service to Members and Nonmembers

(See also Appendix E of this paper, which provides excerpts of the works of various writers on the topic of service to nonmembers.)

The founders of the Rochdale Society intended not only to make a fair living for themselves, but also to provide quality goods at fair prices to the community at large. With the rise of huge urban consumer co-operatives open to the public came the claim by those co-operatives that sale to the public is a right. This poses problems for the principle of self-help, on the argument that only those who have a stake in the co-operative should benefit by it. Service to nonmembers also poses problems for the principle of the distribution of surplus arising out of such transactions: if the majority of business were done with nonmembers, distributing the surplus to members would, in some views, be contrary to the co-operative spirit.

If surplus resulting from business with nonmembers is allocated to reserve funds, however, this prevents such a result and compensates for the loss of share capital which would occur despite the increase in business. Nonmember business continues to be justified on various grounds: use of capacities of the co-operative which would otherwise remain idle; attraction of new members to the co-operative; risk spread; reduction of unit costs; and increased productivity. Business with nonmembers is common in consumer, agricultural and thrift co-operatives.

9. Summary

A review of the literature indicates that the principles of co-operation are dynamic ones which have allowed people to use the co-operative organization to meet a large variety of needs. The principles are not static; they have been interpreted, reinterpreted and reformulated over the years. Interestingly, however, the original Rochdale Principles were never intended to be rigid since the organization for which they were designed, the Rochdale Co-operative itself, grew and developed in a manner not unlike modern-day co-operatives, yet it was true to its originating principles and ideals.

⁷³ Fairbairn et al., in *Co-operatives and Community Development: Economics in Social Perspective*, pp. 95-97, discuss the struggles of co-operatives to incorporate both their economic and social goals into their organizational decision-making processes. See, for example, Appendix E, item (f).

There is a tension evident in the literature. It is a tension between the view of co-operatives as close, actively democratic, highly ethical organizations and the more pragmatic view of co-operatives as economic enterprises competing and thriving in a capital-driven marketplace. Part II of this paper is a study of a number of Canadian co-operatives, eleven in all. The study surveys the business activities of these co-operatives and explores the influence of co-operative principle on decision making within each. The tension displayed in the literature has a parallel in current co-operative practice as co-operatives continue to adapt to changing circumstances.

Part II:
Co-operatives in Practice:
A Study of Eleven Canadian Co-operatives

1. Introduction

The literature suggests that co-operatives have historically been highly experimental in organization and purpose. Indicative of experimentation are: variety in structure, membership and business purpose; enterprise in formation and decision-making; and conflict. Conflict is expressed in the shifting practices and debates which result in the ongoing balancing and reformulation of co-operative principle, in the search for appropriate exercises of democracy and acceptable sources of capital by individual co-operatives, and generally in the situation of corporate goals within the parameters set by co-operative principles. These principles are widely expressed (and debated) in the philosophy of co-operativism and minimally and narrowly laid out in the governing legislation. Only the latter are legally binding, but the openness of most statutory definitions of “co-operative basis” and “co-operative principle” means that practices can legitimately vary widely.

The co-operative form is a fusion of ethical, at times Utopian, service-oriented collectivist goals and practical, market-oriented individualist goals. This suggests another potential source of value conflict, both within the membership itself and between the boards, elected from the membership, who may be more cognizant of co-operative ideology, and professional managers, many of whom are drawn from the private, or corporate, sector.⁷⁴

Are these attributes—variety, enterprise and value-conflict—apparent in co-operatives operating today? If so, how are they expressed? Although both qualitative and quantitative⁷⁵ studies of the operation of co-operatives in the Canadian economy⁷⁶ and

⁷⁴ One writer describes it as “[t]he tension created by attempting to adhere to co-operative values while operating a business,” noting that “[m]anagers and the members of co-operative boards struggle with these issues at the local level....” The author suggests that “[t]he problems are magnified because most managers receive their business training in environments not particularly supportive of co-operative values. This perception of co-operative values as being incompatible with business success in turn has an impact on the strategies chosen by the decision-makers [Hammond Ketilson, “Management in Co-operatives,” p. 263, citing Robert Briscoe, *Traders and Idealists, A Study of the Dilemmas of Consumer Co-operatives*, Ph.D. Thesis, Harvard University, 1971]. Conflict arises when the members feel that co-operative values should direct business actions.”

Hammond Ketilson does not resolve the questions of strategies, structuring and conflict resolution which she notes are raised by this tension.

⁷⁵ These methodologies are discussed below.

intensive qualitative studies of the operation of individual co-operatives and linked systems have been undertaken in Canada, there is no current study which compares business profiles and management styles across the Canadian co-operative sector. Therefore, an exploratory qualitative study with a broad scope was indicated.

2. The Study

2.1 The Approach⁷⁷

The purpose of this study was to show what co-operative businesses are doing, and what, if any, difference being a co-operative makes in business management. The intent was to assess whether hypotheses suggested by the literature (and by familiarity with co-operative practice) about management, and what could be called *focal adjustments* within the sector, had any support. Qualitative methods were best suited to this assessment. Qualitative research has been recognized as the preferred way in which to study management.⁷⁹ It is used to seek out correlation rather than suggest causation, to find out how something works rather than whether it works.⁸⁰ Whereas quantitative research is concerned with quantifying data found in records or generated through questionnaires, qualitative research is aimed at understanding a social phenomenon from the actors' own perspectives.⁸¹ Co-operative management and practice is fully explicable only when this perspective is understood.⁸²

⁷⁶ See, for example, Fulton (ed.), *Co-operative Organizations and Canadian Society*; and National Task Force on Co-operative Development, *A Co-operative Development Strategy for Canada*.

⁷⁷ See generally Taylor and Bogdan, *Introduction to Qualitative Research Methods*.

⁷⁸ See generally Taylor and Bogdan, *Introduction to Qualitative Research Methods*.

⁷⁹ See, for example, Mintzberg, "An Emerging Strategy of 'Direct' Research," where the author observes, "The field of organization theory has, I believe, paid dearly for the obsession with rigor in the choice of methodology. Too many of the results have been significant only in the statistical sense of the word," p. 315.

⁸⁰ Despite claims to objectivity and pure science, the positivist quantitative view is problematic. The methodology distances the researcher from the phenomenon studied. The validity of the mathematization of human interaction has itself been questioned. See Davis and Hersh, *Descartes's Dream: The World According to Mathematics*, for a criticism of this approach.

⁸¹ These perspectives constitute a first level of explanation, which represents the worker's justification for action. While the act may be motivated by hidden psychological or social factors (providing second and third levels of explanation), the explicit rationale is not merely an important component in understanding social response: it is the place to begin the search for understanding. Joseph Raz of the Oxford University Law Faculty emphasized this point in a lecture given at the University of Toronto in September 1987. First-level explanations are often discounted in quantitative research in the search for deeper or external motivations through experimental methods but they are the primary data of the qualitative researcher.

⁸² See Taylor and Bogdan, *Introduction to Qualitative Research Methods*, note 15. Freud's case studies of patients illustrate this point. Qualitative research can resemble good investigative journalism but it

Qualitative research methods have a long history in anthropological, medical and sociological study.⁸³ The methodology includes interviewing, observation, participation and continuing data analysis to generate information. It draws on the knowledge, past experience, and present activities of actors in the field under study and produces relatively intimate descriptive information.⁸⁴ Selection is not random and the methodology is not experimental (in the classical scientific sense). Numbers are compared, but not *crunched*, to disclose patterns. Information from interrelated sources is put together and fit with the relevant literature, resulting in a picture of the phenomenon studied.⁸⁵

The process is inductive: concepts are derived from patterns in the data, as opposed to the deductive use of data in quantitative research to test hypotheses already closely formulated. The researcher considers settings and people as a whole and in the context of past development and present situation, rather than as collections of variables. In-depth interviews are structured after normal conversation rather than formal question-answer exchanges and the interviewer remains sensitive to both the subject and the interviewer's effect on the information given. The focus is on understanding the subject from the actor's perspective, rather than remaining aloof:

To try to catch the interpretive process by remaining aloof as a so-called 'objective' observer and refusing to take the role of the acting unit is to risk the worst kind of subjectivism—the subjective observer is likely to fill in the process of interpretation with his own surmises in place of catching the process as it occurs in the experience of the acting unit which uses it.⁸⁶

Everything is a subject matter for inquiry; all perspectives are considered valuable; and the methodology is humanistic in that it is geared to personal values, struggle and experience. While the methodology is flexible, it is not careless or without craft.⁸⁷

differs in its goals, which are not to persuade but to describe, and its grounding in theory or at least its efforts to yield testable hypotheses for future research.

⁸³ In *The Dilemma of Qualitative Method*, p. 1, Hammersley notes that “[i]n the social sciences over the past thirty years there has been a tremendous growth in the use and acceptability of what has come to be called ‘qualitative method:’ research using ‘unstructured’ forms of data collection, both interviewing and observation, and employing verbal descriptions and explanations rather than quantitative analysis. One of the features of this recent period of growth is that qualitative method has become institutionalized as a largely self-sufficient approach to social research, with its own literature, both substantive and methodological.

⁸⁴ In comparison, quantitative methods result in numerically descriptive but generalized information.

⁸⁵ See Taylor and Bogdan, *Introduction to Qualitative Research Methods*, pp. 5-8.

⁸⁶ Herbert Blumer, cited in Taylor and Bogdan, *Introduction to Qualitative Research Methods*, p. 6.

⁸⁷ Although accuracy is important, the key to qualitative research is validity or *trueness to life* rather than the goals of external reliability and replicability sought by quantitative researchers. In any case,

The amount of information collected is not determinative of the validity of the study. Significant insight can come from a single instance of the phenomenon. For example, one researcher notes:

The purpose of the qualitative interview is not to discover how many, and what kinds of, people share a certain characteristic. It is to gain access to the cultural categories and assumptions according to which one culture construes the world... In other words, qualitative research does not survey the territory, it mines it.⁸⁸

However, the examination of a relatively broad range of instances does give greater support to claims about the general nature of what has been found.⁸⁹

2.2 The Sample

Unifunctional co-operatives exist to fill a single undifferentiated market niche. Many are relatively small-scale or *boutique* co-operatives. Unless their business profiles disclose a pattern of experimental investment, these co-operatives offer less potential for the exploration of experimentation within the sector than do the multifunctional or multiactive co-operatives. “Multiactive” is defined for the purposes of the study as having more than one business function or business purpose, more or less closely related to a central business purpose, or *mission*. The first step in the study was to identify as closely as possible the Canadian co-operatives which had, or continue to have, multiple business purposes and (or alternatively) an investment history or practice which could be termed *experimental*. These categories, we thought, would also capture a variety of organizational structures and struggles.

The first step in the identification of suitable subjects was to interview staff of the Co-operatives Secretariat.⁹⁰ This resulted in the identification of 36 potential subjects. Information was supplemented by telephone interviews with provincial directors or superintendents of co-operatives.

The second step was to decide between representatives of the boards of directors or of management as interview subjects. We felt that management would be more closely informed of the details of organizational structure and goals. We also felt that there was

the integrity of the researcher governs the truthful gathering and reporting of data and no empirical research, especially that involving people, is bias-free.

⁸⁸ McCracken, *The Long Interview*, p. 17.

⁸⁹ “For many research projects, eight respondents will be perfectly sufficient,” Ibid.

⁹⁰ An independent organ of the federal government located within Agriculture Canada, the Co-operatives Secretariat was established to co-ordinate policy among those branches of government whose decisions impact on co-operative practice.

some possibility that, given their training and perhaps experience in ordinary corporate practice, managers would be more willing to disclose ideological stresses. Therefore, we decided to meet with chief executive officers (in some organizations, termed manager or president); failing this, we would meet with those within the management structure best informed about the business of the co-operative.

The third step was to identify the information we wanted from the interviews. We knew time would be limited but we wanted to let the interviews be as much as possible a free-flowing conversation around a few open-ended questions. The areas identified as important were: membership, board-management structure, business profile (subsidiaries, profit centres, joint ventures), financing and share structure, use of surplus (patronage dividends, debt paydown), past and present range of activity, patterns of growth and retrenchment, and management philosophy. We would supplement and cross-check this information with annual reports and other documentation supplied by the subjects.

2.3 The Interviews

Interviews were scheduled and held with the chief executive officers of three co-operatives with head offices in Saskatchewan. Their geographic accessibility to the research team, their status in the Canadian co-operative community (two are the top co-operative enterprises, by revenue, incorporated pursuant to co-operatives legislation, and the third, a major trust company, was established to serve the Canadian sector and operates on co-operative principles), and their business profiles made these co-operatives appropriate subjects. Then we assessed our initial study plan in terms of the information gathered. Overall, we decided, the meetings were useful for gathering information on structure, business activity and history and necessary for finding information relevant to the issues of democracy, management style and technique, board-management relations, and in general the workings of large co-operative enterprises—information unlikely to be included in public documents.

The next step was the selection of the remaining subjects. Representation by region is important in assessing whether the types of co-operatives under study are regionalized or universal (in the Canadian context) phenomena. We grouped the provinces into five regions which we felt were more alike than not in terms of geography, economic activity, culture and demography: Coastal West, Prairie West, Central Canada–Ontario, Central Canada–Quebec and Maritime. Central Canada was divided for reasons which have particular impact on the co-operative sector. There are some significant differences between Anglophone and Francophone co-operatives in historical

development, relations among co-operatives and economic impact.⁹¹ There is relatively little contact between Anglophone and Québec co-operators, and the two groups are represented by different organizations at the national level.

Concluding that the three Saskatchewan subjects were sufficiently representative of the Prairie West for the purposes of this study, we then selected two co-operatives from each of the remaining four regions. In all but two cases, interviews were held with the chief executive officer; in the remaining cases, we interviewed a staff vice-president responsible for financial affairs and the assistant to the secretary of the manager, also a financial officer. In both these cases, the information given was at least as complete as it was in the other interviews, with the exception of the area of board-management relations. Three of the subjects were financial co-operatives: a trust company, a credit union, and a confederation of *caisses populaires*; these, and one of the second-tier supply co-operatives studied, were incorporated pursuant to special legislation. As financial co-operatives in Canada are Rochdale in form and true co-operatives in the *modified* sense discussed in the literature review, there was no logic to their exclusion.

We presented ourselves as lawyers and law teachers studying multiactive co-operatives.⁹² This was useful in gaining entry to some of our subjects. We gave assurances that certain information would not be identified with any particular co-operative. In two cases, we were initially refused copies of the annual report; in one of these cases, we were given copies at the close of the interview. Despite some reluctance expressed by a number of interview subjects to meet or to disclose certain kinds of information, we found in all cases except one that the reluctance disappeared completely by the time less than a third of the interview was over.⁹³ The meetings lasted approximately one-and-one-half hours, the maximum time we were able to obtain with management in most cases.

⁹¹ See National Task Force on Co-operative Development, *A Co-operative Development Strategy for Canada*, "Appendix B: A Note on Francophone Co-operatives in Canada." The report notes that certain of these differences are shared by the *caisses populaires* outside Quebec. Furthermore, there is relatively little contact between Anglophone and Québec co-operators, and the two groups are represented by different organizations at the national level, the Canadian Co-operative Association for Anglophone regions and le Conseil Canadien de la Coopération for Francophone co-operatives.

⁹² The introductory letter is attached in Appendix H. Initial contact was by telephone.

⁹³ In the one exception where no annual report was forthcoming, the manager stated unequivocally, "It is only given to the members at the annual meeting," a policy understandable in view of the market difficulties faced by the co-operative. However, he appeared to be completely frank in every other respect. Figures were supplied by the provincial superintendent, who expressed surprise at the exclusion and called the financial statement a "textbook balance sheet" of which the manager should be proud.

Our study took us from relatively sumptuous offices and board rooms, located in large office buildings or in complexes entirely devoted to the work of the co-operative, to more spartan quarters: the basement of a grocery store, an agricultural processing plant behind a roadside stand, and a suburban strip mall. Despite tremendous variation in the size and scale of the co-operatives studied, all of our interview subjects had business or accounting training; one had been a corporate lawyer and most had experience outside the co-operative sector.

The results are reported below. Each co-operative is separately profiled according to: [1] type, history and development, and operational structure and activities (see “Overview” sections); [2] size, in terms of membership, assets and revenues; [3] investment, joint venture activities, and use of surplus; and [4] the formal roles and responsibilities of directors and members. Management strategy and philosophy are reported and discussed in section 4, “A Management Perspective on Co-operative Principles and Practice.” Individual co-operatives are not identified in that section, through direct quotations are used. The profiles are consolidated in table format and compared in section 5, “Observations.”

3. The Co-operatives

3.1 Coopérative Fédérée de Québec

3.1.1 Overview

Coopérative Fédérée was formed in 1922 by three agricultural co-operatives weakened by mutual competition. By 1930, there were 75 member co-operatives; by 1940, 189; and by 1948, 645. A period of rationalization and consolidation began in 1950. As a result, Fédérée is now comprised of 101 agricultural co-operatives.

Fédérée operates as both a farm supply co-operative and a farm produce marketing co-operative. It is active both as a wholesaler, supplying member co-operatives, and as a retailer, supplying individual producers. It buys from and sells to both members and nonmembers.

Fédérée is divided into five sectors, which it views as autonomous enterprises, expected to be internally profitable:

- The Farm Supply Division supplies feed, seed, hardware, farm implements, and other products or services to Québec farmers. It also operates hatcheries for egg production and marketing. The division acts as a wholesaler for co-operatives and retail outlets, supplying mills with grains, byproducts, and protein ingredients. The

division also operates seven retail outlets in areas where there are no self-governed co-operatives. Its 1990 sales totalled \$489 million.

- The Petroleum Division provides home delivery of petroleum products and operates 185 gas stations in rural and urban areas. Sales in 1990 totalled \$149 million.
- The Meat Division owns three pork slaughterhouses and three distribution centres—two in Québec and one in Ontario. It is also a majority shareholder of a Ontario pork slaughterhouse, a co-owner of an Iowa slaughterhouse, and a co-owner of a New York distribution centre. It has a sales office in Tokyo. In 1990, sales totalled \$354 million.
- The Poultry Division kills, processes and markets chickens and turkeys. It has three slaughtering plants, two processing plants, hatcheries, an animal feeds distribution plant and poultry farms. Sales were \$333 million in 1990.
- The Fruits and Vegetables Department acts as a wholesaler for Québec produce. Its sales in 1990 totalled \$4 million.
- The former Dairy Division was transferred to two new enterprises: Natrel, which resulted from the merger of the milk processing activities of Agropur and Purdel; and Lactel, a joint venture of five Fédérée dairy co-operatives. Sales in 1990 were \$279 million.

3.1.2 Size

Fédérée's membership consists of 101 co-operatives, plus some 2140 individuals. In 1990, it had sales of \$1.35 billion, assets of \$352 million, and 3,653 employees.

3.1.3 Investments

The farm supply group operates like a typical vertically integrated co-operative, buying and selling to members and returning surplus to members. The other sectors are more like ordinary corporations, oriented to profit. According to Fédérée's published *Corporate Philosophy*, "Each division of the Cooperative will be encouraged to carry out acquisitions or mergers of existing enterprises and to acquire new technologies, thereby permitting it to attain the position of leader in its market." While Fédérée is centred in Québec and is the only Quebecois-owned agricultural processor, it is looking beyond the province's borders as well.

Fédérée's investments include \$29 million in Lactel Group, \$5.5 million in C.F. Industries Inc., \$5 million in Co-operative Energy Corporation, and \$9.8 million in other

ventures. It has a variety of partnerships and joint ventures, including one with Cargill in a grain elevator and port.

3.1.4 Management Structure

Individual members must be agricultural producers. Five co-operatives comprise Groupe Lactel, a limited liability joint venture with Agropur. The other member co-operatives are farm supply co-operatives.

Each member gets one vote plus another vote for every \$2,000 worth of business done with Fédérée. The typical co-operative gets from one to three votes, while a large co-operative like Agropur gets 15. The annual meeting is attended by 325 delegates, elected from 15 zones. The board consists of 15 members, elected at the annual general meeting. Reporting to the board are the president, the audit committee and an executive committee.

Each of the divisions or sectors is headed by a general manager. These general managers and heads of administrative departments report to a chief executive officer, who reports in turn to the president.

3.2 The Co-operative Trust Company of Canada

3.2.1 Overview

Co-op Trust is a multiactive co-operative involved in joint business ventures with co-operatives and ordinary corporations. The trust company was formed in 1952 to raise money for investment in co-operatives. Its membership consists of credit unions and co-operatives rather than individuals.

Its first focus was providing trust services, estate preparation and wills. Providing services for small estates, fundamentally altruistic, required strong financial backing. The Credit Society, Federated Co-operatives and Saskatchewan Wheat Pool made loans of \$25,000; Co-op Implements, \$10,000; and retail co-operatives, credit unions and Co-op Insurance, minimum shares of \$50.

By the late 1950s, the declining farm economy meant the new generation taking over operations had to remortgage the family farm to avoid huge debt burdens. Saskatchewan's credit-granting scheme, the Family Farm Program, was administered entirely by Co-op Trust, with the government guaranteeing securities and matching securities invested by co-operatives or individuals. In 1959, Co-op Trust diversified into insurance.

In the 1960s, personal trust activities increased. Co-op Trust invested 75 percent in individual co-operative members, 15 percent in co-operative securities, and 10 percent

in municipal or government bonds. It also assumed management of the Co-op Mutual Benefit Association, a burial society. Rapid growth led to structural reorganization: a consulting firm was hired to help the company move from an informal to a highly structured business system. In 1965, the drive to become a national company began. As the size and sophistication of credit unions grew they began providing services formerly provided by Co-op Trust and Credit Union Central.

From 1968 to 1972, Co-op Trust branched from property management into the real estate market to become a strong multifaceted organization. In 1974 it formed its Co-operative Trust Co. Realty Ltd. (CoTrusCo) subsidiary. The 1970s was also a period of dramatic increase in the fields of assets and trusts, interprovincial activities, the organization of Northland Bank and the co-ordination of related co-operatives.

In the late 1970s, Co-op Trust encountered major financial difficulties due to investment activities and diversification led to a lack of control. It took major support from the larger co-operatives to keep the company afloat.

Co-op Trust now has three major areas of services:

- **Deposit services:** It offers and administers deposit accounts (\$813 million in 1988), guaranteed investment certificates and fixed term registered retirement savings plans. It administers and is trustee of three mutual funds (interest, income and growth), with assets over \$25 million. A wholly owned subsidiary, PF Mutual Funds Inc., was incorporated and registered as a mutual fund dealer in response to changes in several provinces made by securities commissions. In 1988, Co-op Trust was trustee of 855 retirement plans for credit unions, totalling \$3.3 billion in deposits. Combined deposits for two programs administering RRSPs and RRIFs increased by 12.8 percent and now contain over 410,000 contracts.
- **Personal trust services:** With assets of \$262 million in 1988, Co-op Trust saw revenues of \$1.3 million. Its Will Bank contains 37,647 wills in which the trust company is named either sole executor or co-executor. In addition, the personal estate and trust departments administer estates as agent or administrator on behalf of an estate.
- **Mortgage services:** Co-op Trust's mortgage portfolio was \$731 million in 1988. New loan activity amounted to 1,188 applications totalling \$118.5 million. About two-thirds of the mortgage portfolio is insured by CMHC or MICC or is guaranteed by provincial governments. The Loans Under Administration portfolio (607 accounts totalling \$302 million), administered for investors by Co-op Trust, is primarily co-operative housing mortgages.

3.2.2 Size

In 1990, Co-op Trust held \$931 million in assets, the biggest component of which was mortgage loans, at \$797 million. Its income was \$101 million. The assets under its administration totalled \$5.7 billion.

3.2.3 Investments

Co-op Trust invests in estate management and mortgage and financial services for the co-operative sector; as well, it seeks to gain profit for capitalization of co-operative projects. Co-op Trust operates on a borrowing basis of 20:1, meaning that it can borrow \$20 for every dollar of net assets.

As of 1989, loans to co-operatives were 43 percent of the total \$739.5 million on loan; the remaining 57 percent of loans were to ordinary corporations. However, some \$55 million of the ordinary corporation loans were residential loans serviced by credit unions; while the borrowers were not members of Co-op Trust, they were credit union members. About 95 percent of Co-op Trust business comes through credit unions. Co-op Trust is not allowed to lend to its members, or even to organizations partly owned by them. Borrowers can be co-operatives or not.

3.2.4 Management Structure

Figure 3.A⁹⁴ shows Co-op Trust's organization. Membership is based on common service. All members are corporate entities. The major shareholders are The Co-operators General Insurance Company (three directors), the CUMIS Group (two directors) and Saskatchewan Credit Union Central (three directors). Minority voting members are the other 11 credit union centrals (one is a *caisse centrale*) and certain regional or provincial co-operatives (Saskatchewan Wheat Pool, Federated Co-operatives Ltd. and United Co-operatives of Ontario). The voting shareholders and about 575 other co-operatives and credit unions hold over two million nonvoting common shares and over one million nonvoting preferred shares.

Membership is not required for use of Co-op Trust services, though clients of programs administered through credit unions must be members of those credit unions.

3.3 East Chilliwack Agricultural and Consumer Co-operatives

3.3.1 Overview

Twenty-three berry growers organized East Chilliwack Fruit Growers Co-operative Association in 1947 to pool marketing of raspberries. Within two years, the co-

⁹⁴ See p. 88.

operative opened a small feed-mixing plant and started distributing animal feed to its members. By 1960 berry marketing accounted for just five percent of the co-operative's business, as the feed side of the business expanded, especially in the growing dairy industry. The co-operative became the largest feed manufacturer/distributor in British Columbia. A consumer retail operation was also set up, with four retail stores.

In the early 1980s, the co-operative diversified into food processing. It purchased Westvale Foods Ltd., a frozen fruit and vegetable processor. In 1986, the co-operative formed Pacific Fruit and Concentrates Ltd. to process berry juices and concentrates. After losing money, the assets of both companies were sold in 1988.

Meanwhile, farmer members argued that the feed business generated the major revenues, but the *one member, one vote* rule meant that they were swamped by the consumer side, so the co-operative was split into East Chilliwack Agricultural and East Chilliwack Consumer co-operatives.

At the same time, fruit growers were encountering difficulties with the variations in weather and prices and with the limited shelf life of soft fruits like strawberries and raspberries. The co-operative decided to get back into the processing business, and set up a third co-operative, East Chilliwack Fruit Growers' Co-operative. It planned to set up a processing plant and stabilize prices by contracting with growers regardless of current market price, and improve shelf life by canning or making the berries into juice or concentrate. A series of disasters followed. The plant was not ready on time, so the first year's contract could not be fulfilled. There were cost overruns and law suits with the engineers who designed and built the equipment. The co-operative paid 60 cents a pound to growers, though the market price was 45 cents, and ended up with 30 million pounds. The next year, prices hit a dollar a pound, farmers abandoned their contracts, and the co-operative received just 1.5 million pounds of berries.

The agricultural co-operative tried unsuccessfully to support the fruit growers' co-operative. In 1987, the parent co-operative and its subsidiaries filed for reorganization under the bankruptcy act. Its creditors accepted current refinancing arrangements.

The agricultural co-operative has a feed division, with a feed mill in Chilliwack, and a crop products division that supplies fertilizer, chemicals and special services, especially to dairy producers. The consumer co-operative operates four retail stores and a fuel supply depot. While the consumer co-operative is a separate entity, it is basically controlled and operated by the agricultural co-operative.

3.3.2 Size

The agricultural co-operative had 1,130 members and 100 employees in 1990. Assets totalled \$18.1 million; sales were \$57.2 million; and net income was \$56,800. The consumer co-operative had 5,000 members in that year.

3.3.3 Investments

East Chilliwack is primarily concerned with restructuring itself to pay off debt. Some \$10 million is needed to upgrade the feed mill, but member capital was insufficient. Accordingly, the board has accepted a plan to set up a parallel corporation with external equity funding to take over the manufacturing of feed, with contracts between the corporation and the co-operative for exclusive supply to the co-operative.

East Chilliwack had two wholly owned subsidiaries, which were not co-operatives: Westvale Foods, a shelf brand; and Pacific Fruits and Concentrates Ltd., a processing plant (sold in 1988). In addition, it has a small joint venture involving blending and packaging fertilizer products.

3.3.4 Management Structure

Members of the agricultural co-operative must be *bona fide*, full-time farmers. For the consumer co-operative, initial membership included all individual members of the agricultural co-operative; membership is open to any individual.

The two co-operatives have one chief executive officer, one bank, and one bank loan arrangement. Each has a seven-member board of directors, whose terms are three years. In the agricultural co-operative all paid-up members are entitled to one vote at the general meeting. The consumer co-operative elects three members in a similar fashion; the other four are appointed by the board of the agricultural co-operative.

3.4 Federated Co-operatives Limited

3.4.1 Overview

Federated Co-operatives Limited (FCL) is a vertically integrated retail supply co-operative. Some 29 retail co-operatives started the Saskatchewan Co-operative Wholesale Society in 1928 “to improve the economic position of its member-owners by coordinating the procurement, processing, manufacturing and distribution of goods, and the provision of services.” The operation grew over the years, amalgamating in 1944 with Consumers’ Co-operative Refineries Limited, founded in 1934 by ten petroleum co-operatives in southern Saskatchewan. It became known as FCL after merging with the Manitoba Co-operative Wholesale in 1955. The co-operative wholesale associations of Alberta and British Columbia joined FCL in 1961 and 1970 respectively. Its head office

is in Saskatoon, and it has regional offices in Winnipeg, Regina, Saskatoon, Edmonton, Calgary and Vancouver.

Grocery products are a major component of FCL sales. Other areas include petroleum, lumber, hardware, clothing and other consumer supplies. Some 87 percent of FCL's business is done with members on a cash sale basis. Some of its retail members do business only with their members, but more than half also do business with nonmembers. Members are completely independent: they may buy from any source, not just FCL.

Petroleum sales are the most important sales to ordinary corporations. Federated owns the "Tempo" name, contracting with individual gas station owners in a loose relationship. Tempo is neither a co-operative nor a subsidiary. It sells to the general public.

FCL is composed of ten divisions:

- The Marketing Group works with retail co-operatives to prepare and co-ordinate advertising, marketing and supply.
- The Retail Division's regional offices and distribution centres in Winnipeg, Regina, Saskatoon, Calgary and Edmonton are the key contact points between retail co-operatives and FCL.
- The Consumer Products Division procures and markets food, hardware and family fashions for the retail co-operatives. This includes the *Co-op* house brands.
- The Agro Products Division supplies building materials, crop supplies, petroleum products and livestock feed to farm service centres.
- The Distribution Division receives and processes orders for goods and delivers them on FCL's fleet of trucks. It also manages FCL's building spaces.
- The Forest Products Division manufactures and provides lumber and plywood to FCL members and for export.
- Consumers' Co-operative Refineries Limited is a wholly owned FCL subsidiary that operates the Co-op Upgrader in Regina.
- The Environmental and Technical Services Division provides technical analysis of such areas as energy conservation, operations research, inventory management and energy research.

- The Human Resources Division handles employee relations at FCL but is also active in training staff and elected officials of retail co-operatives.
- The Member and Public Relations Division is responsible for member development, public relations, institutional advertising, grants and donations, consumer information and boosting the co-operative philosophy.

3.4.2 Size

In 1990, FCL had 365 members, including 332 retail co-operatives, various agricultural, producers, housing, health or other types of co-operatives, two credit union centrals, two bible colleges and the University of Saskatchewan. It listed total assets of \$635 million and total sales of \$1.58 billion. Through its member co-operatives, FCL serves 750,000 Canadians in the West and in northern Ontario.

3.4.3 Investments

FCL's long-term debt was \$32.6 million in 1990, mostly in the form of savings bonds paying interest varying from 8.5 to 17 percent and secured by a first fixed charge against refinery assets and a floating charge against other assets.

All investments fit into FCL's vertically integrated scheme. Revenue is used to pay down debt or pay patronage dividends, not for long-term investments. Safety takes precedence over return on investment. Accordingly, most investments are short term (under 60 days), limited to \$10 million and placed within chartered banks and credit union centrals. However, FCL does have some \$36,431,000 in longer term investments:

- \$20 million in Co-operative Energy Corporation, which is jointly owned with the federal government. Its major activities centre on oil and gas reserves and exploration. It trades on the Toronto and Calgary stock exchanges and owns Co-op Development Corporation, a publicly traded exploration company.
- \$3,790,000 in Mainline and Surrey security assignments
- \$1,574,000 in The Co-operators Group Limited
- \$1,320,000 in Co-operative Trust Company of Canada
- \$741,000 in Villco Developments Inc.
- \$314,000 in Interprovincial Cooperative Limited
- \$1,000 in NewGrade Energy Inc.

- \$728,000 in other co-operatives

FCL and the Province of Saskatchewan each own half the \$700 million Co-op Upgrader through NewGrade Energy. It has a separate board of directors, with four directors from FCL, three from the province and one from the federal government. NewGrade has no employees; the upgrader is operated by FCL's Consumers' Co-operative Refinery Limited, a wholly owned FCL subsidiary.

FCL is also a member of Mutual Hardware Inc. and United Grocery Wholesales Limited, two industry buying groups.

Joint ventures with other co-operatives include membership in Interprovincial Co-operative Limited (IPCO), the central purchasing and chemical formulating arm of regional co-operatives. When IPCO went bankrupt after its Weyerhaeuser chlorine pulp plant failed, FCL bought it out and has managed it, under contract, since. IPCO controls the "Co-op" trademark and logo and co-ordinates its use across Canada. FCL is also a member of Co-operative Research Farms, the largest independent feed research organization in North America.

Loans to Co-operative Trust Company and to Interprovincial Cooperative Limited totalled \$496,000, and finance agreements totalled \$10,194,000.

3.4.4 Management Structure

All FCL members are corporate entities, each of which must hold at least one share in the organization. Co-operatives supply 99 percent of FCL's capital.

FCL's members are divided into 19 districts. Each district elects one director to the board of directors for a three-year term. Directors are chosen by delegates, and the number of delegates to which a member is entitled depends on annual purchases from FCL: one delegate for under \$5 million; two for \$5-10 million; three for \$10-20 million; four for \$20-35 million; and five for \$35 million or more. Six region vice-presidents and a president are selected from among these 19 district directors.

3.5 Fraser Valley Milk Producers Cooperative Assoc. (Dairyland Foods)

3.5.1 Overview

This producers' co-operative was established in 1913 by dairy farmers in the Fraser Valley, British Columbia. Initially it was a horse and wagon dairy operation. It has developed into a large food processing and distribution concern and has adopted the name Dairyland Foods as its corporate name.

Fraser Valley markets more than 500 different items under a variety of brand names:

- Dairyland milk, ice cream, yogurt, cottage cheese, sour cream and drinks
- Fraser Valley butter
- Pacific evaporated and powdered milk
- Dairy Maid fruit juices and drinks
- Armstrong cheese
- Nature's Treat and Extra Rich yogurt
- Shape calorie-reduced products
- Super Socco drinks
- Fiesta and 1886 ice cream.

The co-operative has twenty-five distribution depots and operates seven milk or juice processing plants. The Burnaby Sperling plant is the largest, capable of handling 500,000 litres of milk per day. The plant is attached to the co-operative's head office and to the main garage, workshop and distribution operations. Cheese and Pacific evaporated milk are produced at the Abbotsford plant, which also is headquarters for the farm tank pick-up fleet. In frozen foods, it operates as a distributor, not a manufacturer.

3.5.2 Size

The co-operative has 2,000 share-holders. Only active producers are entitled to vote; these number 687. The inactive members are mostly retired, but retain nonvoting shares. In 1990, the co-operative had sales of \$4.9 million and assets of \$112.2 million; its operations included 1,500 employees and a fleet of 50 tanker trucks; and its members shipped a total of 336 million litres of milk, averaging 1,341 litres per member per day.

3.5.3 Investments

Expansion has been financed by borrowing, but Fraser Valley tries to keep a conservative debt/equity ratio. In 1989, Fraser Valley bought Palm Dairies. It also has a 25 percent share of Armstrong Foods Ltd.; this joint venture controls the Armstrong Cheese trade name. In 1990, Fraser Valley's share amounted to a loss of \$41,000. As well, the co-operative owns 100 percent of Old Ontario Cheese in Ontario and has a joint venture with three other dairy co-operatives.

3.5.4 Management Structure

Many of the members are individual producers, while some are corporations earning up to \$4 million a year. All have one vote. The co-operative's board consists of seven directors elected by the active membership. Management, comprised of a general manager and chief executive officer, and a chief financial officer, report directly to the board. There are also some 18 to 20 locals with eight to fifteen members per local who meet three times a year, with meetings attended by two board members. Councils of the presidents and vice-presidents of locals are also held, basically as information sessions.

3.6 Mouvement des Caisses Desjardins

3.6.1 Overview

Mouvement Desjardins is a financial services co-operative founded at the beginning of the 20th century. Québec, especially in the rural areas, faced severe problems obtaining capital and credit; this was exacerbated by high interest rates and an economic depression. Alphonse Desjardins, a legislative clerk, promoted the idea of pooling funds to combat these problems. The movement thus grew into a co-operative mutual fund, based on the European experience of the Raiffeisen-caisse model as modified by the Rochdale principles.

The first caisse was established in Desjardins' home town, Levis, in 1900. In 1906, Québec enacted enabling legislation and by 1914 there were 109 caisses populaires. By the 1950s, there were a thousand caisses populaires, organized into ten regional federations. During the 1950s, the movement expanded from traditional areas of service—mortgages and general and life insurance—to offer loan and savings insurance plans.

Mouvement Desjardins is now the largest financial institution in Québec and is active in international money markets. It offers a broad range of financial services, including mortgages, loans, insurance, home and mutual funds, stocks and equities, and venture capital.

Mouvement Desjardins is based on locally controlled caisses populaires. Each caisse has a board with five to fifteen members. In all, there are 18,000 board members.

The caisses are grouped into regional federations, 11 in Québec and three outside the province. Until 1962, there were members from the Québec Credit Union League, with Anglophone managers. They are no longer members, so the Mouvement Desjardins is predominantly Francophone.

Each federation offers services to its caisses: if there is an excess of liquidity in one, the federation spreads it around. Profitable caisses have a great deal of autonomy. When a caisse encounters difficulty, federation staff step in as trouble-shooters to offer ancillary services, marketing, human resource development, legal services, loan services and education of members, board members and employees.

These federations are represented on the Confederation des caisses populaires et d'économie Desjardins du Québec. Representation is partly based on the assets of the federation. The 32 representatives include eight from Montréal, five from Québec, three from Trois Rivières and two from each of the other federations. The Confederation is linked to national and international money markets and banks via the Caisse centrale Desjardins.

Mouvement Desjardins has consistently resisted government involvement. Although Québec founded a deposit insurance bureau in 1967, Mouvement Desjardins has never called on it to pay losses. Instead it relies on its own stabilization fund, established in 1949.

3.6.2 Size

Mouvement Desjardins covers 4.9 million members, including 400,000 corporate members. This includes more than 60 percent of the Québec population. In remote areas, more than 90 percent of the population belongs to a caisse populaire. There are also 300,000 student members who participate in classroom savings schemes.

Mouvement Desjardins includes 1,482 caisses populaires. Many of the caisses are in smaller centres. Of the 1329 Québec caisses, some 626 are the only financial institution in town; only 28 municipalities have a bank but not a caisse.

The Mouvement has \$160 million in investments, with 15 percent of the capital coming from the Québec Pension Plan, which it holds. In 1990, assets totalled \$48.2 billion. The Mouvement, including caisses populaires and federations, included 18,796 elected officers and 38,405 employees. It had \$40.4 billion in savings, \$6.7 billion in investments and \$38.4 billion in loans.

3.6.3 Investments

Many of the activities of Mouvement Desjardins and the caisses populaires centre on job creation, local economic control and self-development. Desjardins Investment Society is the only investment society in Québec and has 23 percent of the commercial loan market.

The Mouvement is involved in a number of holding companies and subsidiaries, many of which themselves have subsidiaries and shares in other operations:

- Société de portefeuille du groupe Desjardins assurances generales (holding company for Assurances generales des caisses Desjardins inc., Norgroupe and La Sécurité, which offers group insurance)
- Assurances generales des caisses Desjardins inc. (automobile and property insurance)
- Norgroupe (general insurance)
- La Sécurité (group insurance)
- 72 percent of Desjardins Trustco (holding company for Credit industriel Desjardins and for Desjardins Trust)
- Desjardins Trust (financial and trust services)
- Gestion Placements Desjardins (portfolio management for pension funds, religious communities, insurance companies and others)
- Credit Industriel Desjardins (corporate financing agency)
- Desjardins Leasing (car and equipment leasing)
- Assurance-vie Desjardins (personal insurance)
- Corporation Desjardins de valeurs mobilières (holding company with shares in Investissements Disnat inc. and Desjardins Deragon Langlois Ltd.)
- Le Investissements Disnat inc. (discount broker)
- Desjardins Deragon Langlois ltée (full-service securities broker)
- La société de services des caisses Desjardins inc. (holding company that co-ordinates the activities of service subsidiaries within the Mouvement Desjardins)
- SECUR inc. (armoured car service; took over Brink's Québec operations in 1986)
- Centre Desjardins de traitement de cartes inc. (Visa charge cards)
- Services de paie Info-Logik inc. (payroll processing and related services)

- 51 percent of Centre d'autorisation et de paiement des services de santé (automated authorization and payment services)
- Société d'investissement Desjardins (holding company for Société d'investissement Tremplin 2000 inc., SID Capital inc., and Gestion d'investissements Desjardins inc.)
- 50 percent of Société d'investissement Tremplin 2000 inc. (venture capital for 10 entreprises with \$22 million in assets; loans of \$250,000 to \$1 million over a five- to ten-year period).
- 100 percent of SID Capital inc. (\$16.5 million in development capital for 24 entreprises with \$105 million in assets; loans of \$1 million to \$10 million over a five- to ten-year period).
- Gestion d'investissements Desjardins inc. (holds capital in companies deemed important to Québec's economic development; portfolio under management was \$60 million in 1990)
- Société immobilière des caisses Desjardins (real estate)

3.6.4 Management Structure

Figure 3.B⁹⁵ illustrates Desjardins' organizational structure. The Desjardins system is a federation of co-operatives with four levels or tiers beginning at its base with 4.9 million individuals who are members of 1,482 separately incorporated caisses. The caisses are organized into 14 federations based on geographic regions which in turn are organized into the final tier, La Confédération des caisses populaire et d'économie Desjardins du Québec.

3.7 Co-opératif régionale de Nipissing-Sudbury Limited

3.7.1 Overview

Nipissing-Sudbury was an amalgamation of four or five smaller co-operatives in the 1950s. It is a retail co-operative, with about 66 percent of its sales being to members. The co-operative was formed to serve the farm community, but due to demographic change, fewer than 100 of its members are farmers. The French character of the region is now changing, and both Francophones and Anglophones are members. The co-operative was financed by the local caisse populaire, which has recently severed ties to Desjardins to become part of l'Alliance, an association of caisses outside Québec.

⁹⁵ See p. 89.

After a series of failed retail ventures and a fire in 1975, the need to modernize both the facilities and the accounting procedures became apparent. The co-operative modernized stores, and patronage increased in the 1980s.

The co-operative has four retail stores that sell groceries and hardware, a bulk petroleum dealership, a gas bar, a feed mill, and a milk transport to pick up milk from farmers and take it to the dairy. It also sells and delivers fertilizers and chemicals. The co-operative services a forty-mile radius and has the only farm supply store in the area.

3.7.2 Size

Nipissing-Sudbury has 3,200 members. In 1990, it had income of \$3.9 million and assets of \$4.5 million.

3.7.3 Investments

The co-operative has not invested in outside enterprises, though it may consider doing so in the future. The co-operative has no joint ventures at present.

3.7.4 Management Structure

Each member buys two common shares at \$10.00 each to join. The co-operative is divided into seven zones. Three directors are elected at large; another seven are elected by the zones. The board meets once a month.

3.8 Saskatchewan Wheat Pool

3.8.1 Overview

Frustrated with the current grain handling and marketing systems, farmers in 1923 organized Saskatchewan Wheat Pool to provide orderly grain marketing. The Pool was active in the formation of the Canadian Wheat Board in 1935 and the signing of the first International Wheat Agreement in 1949. It is now the largest grain handling system in Canada. It is a multiactive co-operative involved in joint business ventures with co-operatives and ordinary corporations. Since 1981, it has diversified into many areas not related to food and grain.

The Pool has 13 divisions:

- The Terminal Elevator Division operates five terminals to receive, process, store and ship grain and byproducts through Thunder Bay (handling about 40 percent of Canadian grain shipped overseas) and one terminal at Vancouver (handling about 25 percent).
- The Country Services Division, amalgamated from the Farm Services and Country Elevator Division in 1987, operates 537 elevators at 514 locations, contracts for and markets special crops,

and sells and distributes farm supplies and equipment at 29 farm service centres, two seed plants, a regional distribution centre, 18 anhydrous ammonia outlets and many bulk fertilizer bins. Its Product Development Branch experiments with new varieties of wheat and sunflowers, and tests chemicals, fertilizers and equipment.

- The Food and Flour Services Division owns and operates a flour mill, barley mill, bakery mix plant and special crops cleaning plant in Saskatoon, with most supplies delivered directly by Pool members.
- The Livestock Division markets livestock through nine provincial centres and through the Saskatchewan Beef Stabilization Board and the Saskatchewan Hog Marketing Commission. It also offers member services like trucking and financing feeder cattle until sale. Services available to both members and nonmembers include appraising livestock, providing marketing information and use of Pool facilities.
- Western Producer Publications publishes a weekly farm newspaper with 130,000 subscribers, and offers accident and farm property insurance services. The division also operated a printing operation, Modern Press, which acquired M.C. Graphics Inc. in 1989 and is now being split off. A book publishing operation also operated until 1991.
- The Human Resources Division develops, implements and coordinates policies and programs for the 3,500 Pool employees.
- The Financial Resources Division recommends and implements financial policy, handles cash and banking, maintains equity account records and member loan programs, administers insurance, property tax, income tax and credit policy, controls corporate accounting and payroll, and handles and tests internal auditing systems.
- The Corporate Development Division is responsible for coordinating corporate strategy, for identifying and evaluating new business opportunities, and for directing the managerial planning process for the Pool.
- The Information Technology Division assists other divisions in managing information resources through installing and operating electronic data processing and office automation systems.
- The Corporate Engineering Division supplies general engineering services, including project management and construction contracts,

and provides occasional services to the general Canadian grain industry.

- The Member Relations Division assists members and elected officials in understanding and carrying out their responsibilities within the democratic structure through educational programs, support services and processing of minutes and member lists. Representatives work in each of 16 electoral districts with committees, delegates and the district director.
- The Policy and Economic Research Division deals with public policy affecting member interests by monitoring legislation and preparing submissions to government. It is also involved with commercial Pool activities, in preparing project analyses and background information for other divisions. It maintains the Pool reference library and archives and administers the Pool bursary and scholarship programs.
- The Communications Division handles public, media and internal Pool information services, public relations, publications, corporate and divisional advertising, and annual reports.

3.8.2 Size

In 1990, the Pool had 88,362 registered members (approximately 65,000 active members) and 3,235 employees. With sales of \$1.94 billion and assets totalling \$462 million, it was Canada's largest nonfinancial co-operative.

3.8.3 Investments

The Pool invests for profit, diversification and social responsibility. It tries to find new markets for farm products to smooth out the cyclical ups and downs of farm income. The Pool's three main criteria for investment are:

- Avoiding investment in areas outside its economic concern: it turned down a fertilizer plant operation because it was a loser in the short term, and had no intrinsic social value, like Philom Bios, below. It did not buy into Northland Bank on the grounds that banks were not a part of where the Pool was headed. The Pool does, however handle open market grain, formerly viewed as *dirty grain*, because its farmer members now want the Pool to do so.
- Social responsibility: this includes spending on sustainable agricultural development, as in the investment in Philom Bios or the exploration of continuous tilling.

- Extension of member services: diversifying into other areas of the food industry and support industries helps increase the size of markets and the share of earnings that flows back to producers. An example of this is the investment in Robin's Donuts.

The Pool has shares in a number of operations:

- 90 percent of M.C. Graphics Inc., a printing company formed out of the merger of Modern Press and a private firm, with 10 percent owned by Central Press
- 49 percent of Prairie Malt Ltd., a malting plant; another 49 percent is owned by Schreir Malting
- 25 percent of Northco Foods, which operates Robin's Donuts; the rest is owned by three individuals
- 7 percent of Philom Bios Ltd., a biotechnical development operation; the other owners are not co-operatives
- 30 percent of Prince Rupert Grain Ltd/Ridley Grain Ltd., which operates a large export terminal at Prince Rupert; owned by a consortium of grain companies, including Alberta Wheat Pool, Manitoba Pool Elevators, United Grain Growers, Pioneer Grain and Cargill Grain
- 25 percent of Co-operative Energy Corporation, which has an active drilling program and manages producing properties and was started by a group of Canadian co-operatives and a provincial government to increase Canadian ownership and control of energy supply
- Western Co-operative Fertilizers Ltd., which has a half interest in a phosphate rock mining operation at Conda, Idaho
- Investments Ltd., in which the Pool is guaranteed 40 percent of the principal and interest payments on a loan of \$40 million by Credit Union Central of Saskatchewan
- 25 percent of Saskatoon Livestock Sales Ltd.
- 87.5 percent of Venture Capital Corporation
- some \$1.58 million of shares in co-operatives.

Joint ventures with other co-operatives include:

- 50 percent of CSP Foods, the world's largest oilseed crushing company and a member of a consortium that owns a bulk terminal at Vancouver; it is jointly owned with Manitoba Pool Elevators
- XCAN Grain, an international grain sales company with offices in Canada, Europe and Japan, which has a subsidiary that chartered vessels for grain movement; it is jointly owned by the prairie pools
- 30 percent (through a holding company, Western Pool Terminals Ltd.) of Pacific Elevators Ltd./Western Pools Ltd., which operates a Vancouver grain terminal
- Western Co-operative Fertilizers Ltd., which distributes fertilizer to principal owners and co-operatives in the western provinces, is a partner with co-operatives in Ontario, Québec and the U.S. in Canadian Fertilizers Ltd., a production company and is a half-owner of a phosphate rock mining operation in Idaho; it is owned by the three prairie pools
- Interprovincial Co-operatives Limited, which co-ordinates member purchases, formulates farm chemicals, processes and packages foods, and owns and controls the Co-op trademark; it is owned by the prairie pools and Federated Co-operatives Ltd.
- Prairie Pools Inc., a member of the Canadian and international federations of agriculture, which is active in policy development and promotion; it is jointly owned by the prairie pools
- Canadian Pool Agencies Limited/Pool Insurance Company, which is an agent for insurance coverage; it is jointly owned by the prairie pools.

Revenue from the Pool's associated companies was \$4.17 million in 1990.

3.8.4 Management Structure

Membership is based on common service. Its members are primarily Saskatchewan farmers and livestock producers.

Figure 3.C⁹⁶ shows the Pool's organizational structure. Saskatchewan is divided into 16 districts, each with nine subdistricts which elect a delegate every two years. Delegates meet within the subdistrict several times a year and all 144 delegates meet yearly for two weeks to set policy and operational guidelines. Delegates at the district

⁹⁶ See p. 90.

level elect one of their number to a two-year term on the Pool's Board of Directors. The 16-member board meets monthly. The Pool also has 600 local committees, each consisting of about ten members, which hear delegate reports, voice opinion and pass resolutions on local matters.

3.9 Scotian Gold Co-operative Limited

3.9.1 Overview

Scotian Gold's roots go back to 1907. Small co-operatives along the Annapolis Valley came together as the United Fruitgrowers Company. This was restructured as Scotian Gold in 1957.

The early focus was on sales of fresh and dried apples to Britain. The focus then shifted to processing apples into juices and sauce for Canadian consumption. Overproduction of apples led to government programs paying growers to cut down trees starting in the 1930s. The shift intensified during the Second World War: freighters were developed for carrying troops rather than apples to Britain, and Britain turned to trade with Europe. The company handled nine billion bushels of apples per year in the 1930s; it now handles just three million bushels.

The co-operative diversified in the 1960s and became a major player in the Nova Scotia economy. It sold feed and fertilizers, bought bulk flour for sale to bakeries, ran a chemical plant and held shares in, among others, a radio station and an airline. It instituted one of the first franchise systems, a series of roadside stands selling vegetables. Continuity was lost through the hiring of a succession of managers and Scotian Gold divested itself of all ventures external to fruit processing in the latter part of the 1970s in an attempt to stabilize. Preferred shares, later converted to loans, were issued to members to raise money for better processing equipment, but the processing plant was destroyed by fire in 1981. The co-operative was underinsured. Having to choose between a warehouse or equipment, the co-operative relied on competitors' equipment, entering into a joint venture with Farmers Dairy Co-op. The joint venture, TetraPac UHG lines, processes Farmers Dairy milk and Scotian Gold juice.

During the 1980s, the grocery industry rationalized, with hundreds of independent wholesalers being reduced to just three or four. The result was that wholesalers could more effectively dictate prices, and growers received much less. Meanwhile, two Massey-Ferguson dealerships the co-operative operated were shut down, even though one was quite profitable, when Massey-Ferguson got into troubles.

Despite a provincial bailout of the struggling operation, Scotian Gold was near bankruptcy in the 1980s. With assistance from the provincial department of co-operatives, it divested itself of most of its sidelines, concentrating on fresh apples. It still has a fertilizer blending plant and sells implements, sprays, fertilizers and other farm supplies to both members and nonmembers. A small retail stand sells apples and Farmers Dairy ice cream.

The enterprise is now stable, though it has difficulty paying out equity owed to retired members. Equity returns have been forbidden for 15 years, until the co-operative can repay government loans.

Scotian Gold acts as a broker for its members, selling to wholesalers. It handles about a quarter of Nova Scotia's fruit. The co-operative also sells plums and pears in season, and some peas and carrots. About a fifth of the co-operative's apples now go to a local pie maker. Interprovincial sales of all products account for about 90 percent of its business.

3.9.2 Size

Scotian Gold has about 140 members, fewer than 90 of whom are still active in the co-operative. In 1990, it had total sales of \$4.2 million and assets of \$2.5 million; it posted a loss of \$42,000.

3.9.3 Investments

Scotian Gold is not a position to invest in outside ventures, and has eliminated its investments in areas not dealing with apples. Scotian Gold has one joint venture, the TetraPac UHG facility.

3.9.4 Management Structure

Members are individual apple producers. The chief executive officer reports to a nine-member board elected by the membership for three-year terms. At least one of three directors elected each year must be a new director.

3.10 Scotsburn Co-operative Services Limited

3.10.1 Overview

Scotsburn was founded in Nova Scotia in 1900 as a self-help marketing operation for dairy farmers. It built a creamery, with government assistance. By 1924 the creamery produced over a million pounds of butter annually. In 1939, the creamery added an egg and poultry grading station. In 1945 the joint-stock company was reorganized as a co-operative. The co-operative quickly expanded into new areas during the next few decades. Along the way, it bought up a number of other creameries, dairies and ice cream

manufacturers. By acquiring all the common shares of Brookfield Dairy Products in 1972, Scotsburn's operations covered Nova Scotia and New Brunswick. A merger with Eastern Dairyfoods Co-operative Limited in 1984 brought Scotsburn into Newfoundland as well.

While it began as a dairy co-operative, Scotsburn also markets ice cream, frozen yogurt, cottage cheese, spring water and other products. In addition, it operates two feed mills, a distribution centre and a farm supply centre.

Scotsburn helped form a national alliance of producer co-operatives across Canada, including one co-operative in British Columbia, two in Alberta and two in Saskatchewan, to distribute a variety of food products. It has a working agreement with Ault Foods, owned by Labatts and operating in Ontario and Québec. The alliance's head office is in Toronto. Scotsburn also markets Haagen-Daz ice creams across Canada.

Scotsburn's subsidiaries include: Brookfield, a frozen food business that buys from McCains and sells to Sobey's; ADF Transport, a trucking company that trucks for Scotsburn and other companies; and the hardware branch and feed mills mentioned.

3.10.2 Size

In 1990, Scotsburn had sales of \$145 million a year and assets of \$37.5 million. In addition to its joint ventures, it has 550 employees.

3.10.3 Investments

Scotsburn participates in joint ventures to earn profits. It gives no priority to supporting other co-operatives. Scotsburn is allied with co-operatives and ordinary corporations that compete directly with other co-operatives.

Scotsburn is involved in two joint ventures. In Newfoundland it has 50 percent of Brookfield Holdings (a separate entity from Brookfield above), a private company co-owned with two brothers. Brookfield Holdings has \$50 million in sales of milk and ice cream novelties. In St. John, New Brunswick, Scotsburn is involved with ice cream novelties. All of Scotsburn's subsidiaries are 100-percent owned by the co-operative.

3.10.4 Management Structure

There are 1500 preferred shareholders. They are not members and have no voting rights but do participate to get patronage rebates on fuel oil, hardware and feed. There are 400 common shareholders who are *bona fide* farmers and another 400 who are either retired farmers or those who became members before the preferred member class was created.

Scotsburn has a board composed of nine directors, three elected at large and one from each of six geographical zones. The board meets about ten times a year. Individual

members participate primarily in the zone meetings. The annual meeting is generally attended by about 150 of the co-operative 400 active members.

3.11 SECUL Savings and Credit Union

3.11.1 Overview

SECUL was incorporated in the 1950s by a group of Scarborough, Ontario, teachers. Membership was expanded to include their families and other board of education employees and families. In the early 1980s, the credit union converted to a community bond issue and now operates as an ordinary credit union.

SECUL entered a period of rapid growth in the 1970s. It became one of the top ten Ontario credit unions, had five branches, and was studied as a model by people from other countries. It was first to institute tiered chequing, daily interest chequing, and electronic systems. It gave out low-interest loans. In the early 1980s, SECUL entered the commercial loan market, but lack of lending experience led to poorly secured loans and shakey investments. These included the issue of defaulting second and third mortgages on a strip hotel in Pentatanguishing, a fraudulently portrayed bar and grill operation in southern Ontario, and an already-defunct cement plant. As well, SECUL was trading its own equity portfolio on the stock market and speculating in silver (the largely worthless silver wafers are now distributed as souvenirs). Despite the success of a number of real estate investments (including ownership of two strip malls), the bad loans combined with the economic recession of the early 1980s placed SECUL in a precarious position. The manager wanted to buy other assets and other credit unions, necessitating a government examination of the books, completed in 1986. This disclosed that \$20 million was out in illegal or improper commercial loans. The province stepped in. SECUL is no longer in the commercial lending market and has only one branch. It has divested itself of its investments with the exception of \$200,000 in stocks, down from several million, and has adopted a policy of no new stores.

3.11.2 Size

SECUL has 12,000 members. In 1990, it had assets of \$73.4 million, income of \$10 million (less a \$250,000 provision for doubtful loans), and a deficit of \$679,000.

3.11.3 Investments

After the deficit has been recovered, SECUL's strategy is to attract branch mergers with small credit unions that are otherwise on the verge of being closed down, and then to increase loan levels and services to attract customers it cannot at present serve.

3.11.4 Management Structure

Members may be individuals or corporations. Now that it is not allowed to lend to corporations, there are few corporate members. The board is composed of 12 directors, elected at large, to three-year terms.

4. A Management Perspective on Co-operative Principles and Practice

4.1 Introduction

The professional manager or chief executive officer has the daily *bottom-line* responsibility for the economic viability and therefore survival of the enterprise. The co-operative manager is responsible to a *lay* board whose members may want to maintain hands-on control of the business and yet may lack business experience. Therefore managers walk a fine line between exercising independent business judgement and convincing boards of the necessity of certain business moves; where they cannot convince, they must accept, often against their better business judgement. They are acutely aware of the practical implications of 'one member, one vote,' member service, democracy and self-help and limited return on capital. Their comments give perspective on the operation of co-operative businesses in a capitalist marketplace, the business utility of co-operative principles, and the internal problems of their organizations in fulfilling the spirit as well as the letter of co-operative principle.

All eleven of the co-operatives in this study were managed by professionally trained accountants or business administrators. Of necessity, two interviews were held with managerial staff; these disclosed little about relations between manager and board and provided little external perspective on the co-operative enterprise.⁹⁷ A third interview disclosed no concerns with co-operative practice. It is noteworthy that these three co-operatives were among the largest and most successful of those in this study. Any economic storms over the fifty or more years in which all had operated had been weathered with little incident and all were in regions in which co-operatives continue to play a major economic role.

Five of the remaining managers were drawn from outside the co-operative and the co-operative sector. Two of the managers were frustrated in the extreme with the failure of their co-operatives to act co-operatively and one read into the co-operative principles themselves the seeds of that failure. The remaining six were essentially won over or

⁹⁷ One of these had been with the organization for over thirty years and was trained as an economist; the second was in his second year of employment in the co-operative sector and had been a commercial lawyer.

attracted to the principles while recognizing their limitations in certain key areas of business administration. None appeared to overstep the bounds of co-operative principle, much as they may have felt hampered by these requirements. Four of the eight were engaged in *cleaning up* after predecessors had taken the co-operative to the brink of economic disaster through lack of business expertise and judgement, compounded in two cases by the apathy or bad judgement of their boards.

In order to preserve confidentiality, the co-operatives are identified by letter. Quotations are liberally used to preserve the flavour of the comments.

4.2 Background and Training of Managers

The manager of A trained with a large corporation and was brought in for a year as an accountant when prices had fallen, to oversee mergers with other co-operatives; five years later he became manager and has held that position for 20 years. The manager of B was an accountant with the firm which managed the co-operative's financial affairs; he was hired to restructure the co-operative when it faced bankruptcy. The manager of C trained at a major corporation, received his MBA and managed a small private company; he too was hired to restructure and *clean up*.

The manager of D was a cost accountant, first with a major corporation (in his words a "slick company"), then a small business enterprise; he began with D as assistant treasurer. He states, "Then they turfed the General Manager—he was the fourth General Manager in four years—and they offered me the job. I said no." Refusal meant no job, so he remained with D to restructure operations and attempt to regain stability and market share. The manager of E was also brought in as an accountant when a new manager was hired; he has been with E for 15 years, since college, and has had no other business experience. The manager of F spent 12 years in the co-operative sector, eight of those with F; before that, he worked for a number of private corporations. The manager of G has spent more than forty years in the co-operative sector having worked up through the ranks. The manager of H, although brought from government into a middle management job, has been with the co-operative for 26 years.

4.3 Managers' Views of Board-Manager Relations

Boards were viewed as both over- and under-involved in management, sometimes at the same time. Freedom from over-involvement was seen as good, but under-involvement led to disaster for some co-operatives and refusal to take responsibility for

management decision making placed a dangerous onus on the manager. The manager of A noted that the responsibility of his board is to set all policy, rather than to manage:

...so a lot is management-driven. The board is a step away from management because it has authority only while it is sitting. You don't have board members breathing down your neck all the time.

Conversely, the board relies “too much” on its managerial staff and is “dependent” on the manager. According to the manager of D, “The board leaves it all to the manager. When it’s a difficult decision, it’s a ‘management decision.’” If the move is successful, the board takes credit; if not, the board disowns it. Apathetic, overly trusting or uninvolved boards were seen as a problem. Of past disasters, the manager of C asked, “Where was the board? How could assets grow by \$4 million in one month, and you not ask about it?” The manager of G commented on past board–manager relations, “The board was too passive. They should have questioned the decisions. We lost in land development and real estate. They were getting out and playing with the big boys.”

Some managers experienced difficulties in communicating business needs and developments because the members are not sophisticated business people. This is changing for some co-operatives as second-generation farmers, for example, begin to run their operations according to business principles. The manager of C stated:

They are well educated, but they are not business people. You can explain things to them: you tell me what you want to happen, and I’ll tell you what’s possible. If we don’t agree on policy, I’m out of here.

The manager of F noted this as a general problem facing co-operatives:

The board is ill-equipped to understand what is going on. There is no concept of how a large organization works, although they run multimillion-dollar businesses themselves.

This must be compensated for by the manager:

The manager of a co-op has to be more well-rounded. There is nowhere else to pass the buck, there is no expertise on the board, you can't appoint a banker or a manager to the board. It is easy to lose perspective and you have to make a conscious effort to keep it so you draw on outside consultants.

The manager of B commented on the lack of understanding of simple business principles:

For example, the tax planning involved in winding up the subsidiary company was attacked by a member as ‘emulating the major corporations and avoiding our fair share of taxes.’

However, he noted that “the board is slowly changing” in its perceptions of the co-operative as a business enterprise:

First, they have a better understanding of issues. A bad year last year brought home the relationship of income to the secured debts of the

members. Second, the newer, younger members understand concepts like debt/equity ratio, which they use in their own businesses.

The manager of E had a similar experience:

I have a few young board members, three out of 10, in their early 30s. They have good dairy farms operating as businesses. They are aggressive. They are starting to change that attitude of the board.

Conflicts in ideology and agenda are being slowly resolved. Two managers have made it clear that over-direction will result in their resignation. The manager of E saw the board's role as overseeing affairs and giving general guidelines; then the board "steps out of it:"

We had conflicts in the past, but now they do not step in. This is now in my management contract: if they do, I leave. A few directors had to be told by the president to back off.

When the disastrous financial arrangements made by the former manager of C were made known to the board and membership, there was the following reaction:

A lot of people felt personally betrayed by the general manager. There were two camps, those who were vicious and angry at being taken advantage of, and those who said, I can't believe this happened, he couldn't have done it. They thought it was cleaned up by the time I came.

It was not and further difficult decisions had to be made. The board had other ideas, but the new manager argued that, as "they went to the headhunters" to find someone to take charge, he should take charge. He told his board:

If we don't agree on policy, I'm out of here. Don't tell me how to run the place. Now we are virtually out of the ... market we were in five years ago.

The manager of G placed more responsibility on the board for board-management relations. He characterized the board's responsibility as fiduciary, requiring "the diligence and skill of anyone in like circumstances:"

If they are getting fraudulent information from management they can't do it. It's a matter of good faith. They have to look at the information and ask questions and get the information. It's not the old boys club now.

There is, overall, a sense of improving relations between boards and their professional managers, once areas of expertise have been clarified. The manager of D stated:

I have a good relationship with the board. I did not have enough experience at the time the troubles started but I was the only guy they had. Over time I have demonstrated I am honest, upfront, no games, so we get along well.

However, all is not perfect: "[I]t is easy to fall into disfavour with the board; your name is mud; you can get into a lot of trouble. The board gets very emotional." Other co-

operatives report good relations: “We hold board [of F] meetings every two weeks. We have very good communication.” “The board [of E] meets once a month, plus committee meetings. It is good to work with because it represents different regions.” A positive relationship was reported by one of the co-operatives excluded from this part of the study. The remarks are worth noting, for their rhetoric at least:

The relationship between senior staff and the board is an interactive process. While I may have put some flesh around things, it is the board’s role to decide. I put the board at the top and I’m proud of my board’s leadership... We have the strongest board-management relationship I have seen. There is nothing I am doing that the president does not know, not from memos but from meetings, free-flowing, strong, positive.

4.4 Management Style

Business sophistication influences perceptions of management style, pace and aggressiveness, and risk-taking capability. The requirements of co-operative democratic principles and a general conservatism affect the way management decision-making is viewed and practiced. Past experience of risk-taking which failed has deepened the conservatism of some boards and the membership they represent. Managers have, overall, come to terms with the requirements of co-operative practice but remain at least mildly frustrated with this conservatism. Those managers who brought into effect a major restructuring seem to have the upper hand in decision-making, but they recognize the necessity of bringing their boards with them and holding back where necessary, rather than acting independently, the error ascribed to their predecessors in some cases. As discussed further in the next section, some are disapproving of the failure of their co-operatives to live up fully to the spirit of the principles.

Management style is essentially the same as it would be in the private corporate sector, but is governed by different considerations which affect the pace of doing business:

The way [A] is managed is little different in the business sense than if it was owned by Kraft, but it is very different in the democratic sense. We have the zone meetings and we are responsive to member needs... We would be managed the same, but we would not get the response from our [members]. It would take less management time if we were not a co-op.

For the manager of B, democracy is problematic:

[B]ecause of ‘one member, one vote,’ they tend to be very conservative and slow decision-making entities. They have to get the majority to support a course of action, whereas in business a board can make quicker and better, because better-informed, decisions.

Pace and risk-taking were also problematic for the manager of E:

Under a private corporation, there would be some things I would do differently. Some very marginal departments would not be here. There would be more joint ventures; it would be more creative. There is a different atmosphere—I am always under the watchful eye of the members. There are 3,300 members, so it can be sticky. But my management style would not change.

He notes, as an example, the difficulty in ridding the co-operative of an historically valued but financially marginal service:

[T]he board says, 'We've got this service, we had it a long time.' They are reluctant to let it go. A corporation would do a six-month study and get rid of it. A co-op takes three years before they realize they should get rid of it or they would jeopardize the entire operation.

The manager of B also noted a commercially nonviable branch of operations was "kept alive for political reasons and convenience." E's manager attributes this to conservatism and, perhaps, sentimentality:

The service would still be there, operated by somebody else, but the board was brought up on the idea that only the co-op supplies the members... Another co-op will do it and the members wouldn't know the difference. It's not like the old days.

Like the manager of B, who felt his co-operative was "sitting on a gold mine" but failing to exploit the business opportunities, he regrets the lost opportunities: "I have ten companies wanting to buy me out. In other circumstances, you could make money here."

But this is a strength of co-operatives, according to the manager of F:

One of the strengths of co-ops is the long-term focus. They are not living quarter by quarter, like a corporation. If it's a bad quarter they don't sell off assets. They are more like a Japanese or European company. We have some fifth and sixth generation farms [here] who settled in the mid-1800s. So they are looking out for their own sons and daughters.

All the managers emphasize the importance of profitability and recognize the actual and potential profits lost by this conservatism. E's manager expressed it this way:

My philosophy is, we run this co-op as a business. The co-op philosophy is still there, but we have to make sure we can expand our services and modernize so we will still be there for the future. The first year, it was hard to change the board attitudes. The board would say, "We're a co-op, we're not supposed to make money."

However, changes in board membership have enabled him to convince the board to enter a profitable side venture, whetting their appetite for more:

I have a conservative, cautious board. I have to lead them on risk taking, convince them to get out and get in business. The [venture] took four

months to get. Now they are very happy, comfortable. They want to get in deeper.

The manager of B drew his board's attention to the basic dilemma of continuing in the old ways under the old assumptions:

Unless the co-op operates on proper business principles with adequate financial structuring, it will fail. I have emphasized this with the members and the board. Unless the co-op does something about it, it will not be here in 10 years. It is not self-help. Those days are gone. This was brought home when the co-op was on the brink of bankruptcy and I appealed to the members for financial support: I was laughed at.

The manager of C noted of his board, "They accept change very slowly... [O]nce the thing is good, they are reluctant to try something else." He ascribed the conservatism in part to a preference for process:

They want to consult. There is too much emphasis on the quality of the process and not enough on the quality of the output. They missed opportunities because the system could not make decisions quick enough.

He referred to his co-operative experience as his "philosophical education" but his "business philosophy" remains profit-oriented. His pace and aggression worried the board.

When I got in, they said, 'You don't know how we do things.' There was no animosity. I said, 'you were sick, you called the doctor, so don't second-guess me.' Decision-making [in a co-operative] is a slow process. It's cumbersome. It can slow you down: 'Wow, is this guy aggressive,' etc... I have moved fast compared to what the board wants, too many decisions too fast... I was ultra-conservative with respect to risk but aggressive with respect to pace.

As with E, the board has accepted his style and "it has turned out really well." The conservatism was based in part on fear:

The board had allowed staff to go off and do things and the board didn't know until the roof caved in.... [T]hey went way beyond the approved by-laws and policy, and they made bad decisions—dreadful stuff.

He notes there would have been worse problems if he had not been "ultra-conservative" in risk-taking and failed to bring the board along with him: "But if I had done things my way, it would have had a bad ripple effect." Bad management, a communications gap between manager and board, and diversifying too much, too quickly, was the cause of the financial problems which four co-operatives had faced, according to their managers. In some cases, the ideas were "not bad;" in others, they were characterized as disastrous, "dreadful stuff," but in all cases, as the manager of G expressed it, "The idea was to improve earnings for G. There is nothing wrong with co-ops doing this." According to

the manager of F, in co-operative investment, “The theory is that the further removed from the core business, the higher the risk because you know less about it.”

Because the members are both owners and service users, there may be conflicting interests which influence price setting and marketing decisions and the long-term view of the enterprise. The manager of B stated that:

The board members are in a classic conflict-of-interest position. As ... buyers, they take the attitude that the co-op is gouging the [members], yet they have an obligation to third parties [the bank and other creditors].

The manager of D expressed this more simply:

It's not so much the board but these guys don't recognize it's their company. They have great difficulty distinguishing between us and them. When it's good, it's us; when things are bad, the co-op is them.

Overall, the experience has been interesting even for those most distanced from co-operative philosophy. As D's manager observed, “It has been interesting. I would have a hard time going back to an ordinary business.”

4.5 Views of Managers on Co-operative Goals and Practice

Managers of co-operatives operate in a commercial marketplace on a daily basis and have a foot in two worlds. Both worlds are geared toward survival, profitability and enterprise, but they are governed by different rules. As the job of the manager is to maintain economic viability, this influences manager perception and characterization of co-operative goals.

In one case, lack of co-operation among co-operatives and the stigma attached to co-operatives in the business sector was cause for bitterness:

They don't do anything for me... Co-op Z is the hardest to do business with, harder than the private X chain, but X will say, you're part of that other system, you have support, so I'm going to support the other guy. I want to sell to Z, but Z won't work within the overall co-op system and has let D down. Yet, in free trade, we are penalized because D is a co-op. You have to work the co-op way in a non-co-operative system, but your hands are tied by the co-op rules and by trying to convince the members to act co-operatively.

As might be expected, some managers held strong views on the overall utility of co-operative goals and principles in a business world. The managers of two of the co-operatives which had experienced significant financial problems, were particularly frustrated here. As B's manager put it:

From a financial/legal/social view, it's 'one member, one vote' and participation in profits is related to the volume of business done with the

co-op and not to financial stake. So co-ops in the commercial world face a tough task... I look from the business and economic point of view, often strongly opposed to co-op philosophy... I have a mistrust of co-op principles. There are problems matching financial expectations with philosophical values.

Furthermore, decision making is slow, not well informed, influenced by politics instead of practicalities, and financial information is very public: their “toughest competitors” sit in the front row as members at membership meetings and the annual report is on their desks the next day. For the manager of E, the biggest problem is public education:

The public does not know what a co-op is. It’s a shame. It’s a good system if people know how to use them. It should be taught in the schools.

The manager of D was more direct:

It’s horrible. The co-op idea is okay but it must be market competitive... Compared to an ordinary company, it’s terrible working for a co-op. Here it’s a bunch of co-op guys who didn’t know how to co-operate... I’m not a real good co-operator... I am getting sick to death of hearing, ‘Support the co-op system.’ They don’t listen to their customers or to the owners and managers of other co-ops, or their own.

Conversely, most expressed at least some concern that the spirit of the co-operative principles—democracy and loyalty—was not fulfilled.

Co-operatives were praised for their long-term view, condemned for lack of loyalty to this view and further condemned where it brought a sentimental attachment to historically important but nonviable branches of the operation.⁹⁸ History also affected the exercise of member rights and responsibilities: the *new* generation may be better educated in business practice in some cases but their loyalty was conditioned by quality and price of services. For B’s manager, “The whole idea of co-op loyalty does not exist:”

Buying decisions are not made on the basis of co-op membership but on quality, price, service, technical support behind the product. Generally speaking, if it does not perform to the expected level, the farmers will buy elsewhere.... When the co-op was put together forty or fifty years ago, it was driven by economic need... Many are now retired, many are now retiring, but they remember the old days and hang on strongly to the thought that the co-op is fulfilling an important function. But their children who now run the operations do not have the same strong link to the co-op. For them, it is a business only. So there is a dilution of co-op buying loyalty.

The manager of D felt that “The biggest problem is member loyalty:”

⁹⁸ See previous section.

A few [members] are slowly coming back, a lot slower than they left. In everything we do, we are being measured against the other guy...The other guy is into free enterprise; he wants to make you come back, so he gives inexact returns—if you're big, he gives you more, if you're small, he gives less. So we are still operating at a disadvantage, being a co-op and having to treat everyone fairly whether you have a thousand [units] or ten [units]. A co-op can't deal with people the same way as free enterprise; its one vote for all...

Disloyalty, or apathy, was seen to impact not only patronage of the co-operative but also the exercise of democracy and the acquisition of capital necessary to carry on business. The exercise of democracy was a concern common to all co-operatives surveyed. Concern that business would grow so big it would slip out of board control was expressed by A's manager:

The board is concerned about how big we want to get: will it all get out of our hands. It's a worry to them and to me too. There are times when it seems bigger than we can handle. But other organizations have the same problems. It's a sign of the times.

Representation and voluntarism on boards were problematic:

[The board's] most important job is continuity and management, so it needs to be more representative... We don't have a 100% democratic structure... One of the things I have wondered about is the loss of voluntarism. Has it all become remunerative? If you pay good *per diems*, people can't afford to lose the job of board member.

His board pays a yearly honorarium, so the emphasis is not on the meeting day but on the whole year, avoiding incentive for unnecessary meetings. Member participation was a concern:

The zone meetings are fairly well attended on a regular basis, but not nearly as well as when there is some controversy... but a lot of little committees help keep the democracy alive.... We do have some trouble with attendance at zone meetings and committees. Our annual meetings are chaired by the board chairman... and they are not heavy on democracy; only about [1/4 of] the members show up. We do have special meetings occasionally, and small issues are raised at the zone meetings. People are more comfortable speaking there, anyway.

B's manager stressed this as well:

And there is apathy. It is increasingly difficult to get members to meetings. Under 10% of members attend.... For a recent meeting, there were phone campaigns and field representatives and rides to the meeting but [fewer than 1/11 members], including the directors, showed up. There was better attendance at the restructuring meetings but the members were there as creditors with unsecured loans.

“The spin-off of apathy,” according to B, “is that a vocal minority can have a disproportionate influence on co-op direction.” Lack of democracy combined with the requirement for democratic control, no matter how little those voting represent the body of the membership, can be dangerous. Three or four per cent can control elections and management decision making. True democracy can be imperilled when a proposal is not taken to the members because of the objections of a few that might result in conflict and lead to irreparable rifts and the demise of the enterprise.

I put this to the board [of B]. The board was slow on it but said it would go along with this. One member was reluctant and one was violently opposed, so they agreed to take the proposal to the membership. We tested the waters with a series of meetings...and met with mixed reactions, so the board did not call an extraordinary general meeting. The member who was opposed organized a lobby of seven or eight members, which was sufficient to stop the board as this would have caused a major rift. The proposal was withdrawn. A rift would have been life-threatening to the co-op.

C’s membership was infiltrated by a group seeking voting control through the election of board members from among themselves, and representatives made direct approaches, offering a variety of bribes, to the manager if he refrained from ensuring a strong turnout and active candidates. The purpose appeared to be an amalgamation of co-operatives which would permit the members, through the manager, to “skim off the cream” or make lucrative arrangements for themselves.

The spirit of self-help which motivated the founding of the co-operative was seen as no longer present, nor was it viewed as determinative of the purpose of the co-operative: other more market-oriented strictures now prevail. The manager of E saw significant changes in attitude:

People are changing their attitudes about the co-op. The way it was yesterday isn’t the way it is today. Now it’s a business and they see it that way...

Loss of self-help impacts on capitalization, a problem for some co-operatives in this study. According to B’s manager:

First, they are undercapitalized, and there is no incentive to invest capital because there is no return...

As E’s manager put it:

Don’t ask people to take money out of their pockets, that’s not going to happen. Those attitudes are not there now.... The constraint is always the capital you have to work with. And government: as soon as you’re a co-op, they don't want to talk to you.

The manager of F simply stated: “Investment is the shortcoming of co-ops.”

The majority of the co-operatives studied were relatively satisfied with member investment. Some were on the lookout for other sources of capital but others were in no need of outside funds. Even so, democracy remained the concern of even the largest of these.

The rationale for the existence of a co-operative has traditionally been member need and member service, but this is not the primary goal of the managers in this study. The maintenance of the co-operative and its future growth and success had become a predominant goal as indicated by the following comments:

- A: We are in a planning stage now.... We got into a couple of things which did not do well.... How much do-gooding can you do? If you don't stay in business, you can't do any good for anybody.
- B: Restructuring has two phases: one, stabilize, deal with the creditors, earn money; two, upgrade and capitalize—but how?
- C: Once the house is in order, you can start [expanding operations].
- D: What is going to be really hard is to go forward after retracting so much, selling off...equipment—learning to take risks.
- E: The question is: what kind of risk can you take on earnings and capital? It's a question of managing the risk.

The view expressed by the manager of E sums up that expressed by every subject:

My personal view [is]: we've got to keep on growing all the time, look for new avenues to get into.

However, survival and profitability are understood by the managers as impossible without member support, which requires adequate member service and participation, so democracy and service remain tied to this goal.

5. Observations

5.1 Overview

Co-op Trust, created as the service wing of the credit union movement to provide trust and estate services, was *born big*, with significant starting capital. Two of the second-tier co-operatives, Federated Co-operatives Ltd. and Coopérative fédérée, began relatively modestly as purchasing pools for small first-tier co-operatives. Desjardins founded its empire on a single caisse in a rural community. The remaining seven co-operatives began as small unifunctional farmer-owned associations. All developed into enterprises many orders of magnitude larger in membership, scope, assets, revenue and

business purpose. The emergent pattern is one of beginnings in intimate circumstances of mutual need and proximity, development and consolidation and then experimental activities going in most cases far beyond the original bond or service.

Some—Scotian Gold, SECUL, East Chilliwack and Co-op Trust—came close to total business failure and have undergone considerable restructuring; with the exception of Co-op Trust, none of these has regained its former status. In the usual case, co-operatives do not go bankrupt: they are either curtailed in their activities, forced out of business or rescued by the co-operative sector, as in the case of Co-op Trust. Any difficulties encountered by individual *caisses populaires* are dealt with within the Mouvement Desjardins. In a similar manner, but to a lesser extent, failing co-operatives are bailed out or closed down by the co-operative movement out of both *brotherhood* motives and a fear of negative public perception. All co-operatives in this study were affected by the recession in the early 1980s and curbed activities to a greater or lesser extent in response. Some of the business failures were due to managerial inexperience and *playing with the big boys* unconstrained by their boards, as in the case of SECUL and Co-op Trust; in other cases, the failures appear to be the result of the risk inherent in diversification when capital sources are comparatively limited, as in the case of East Chilliwack.

The profiles of these co-operatives clearly show that in substance and in form, business activities are identical to those of investor-owned corporations. In substance, activities have ranged from feed sales to massive foreign investment activity, to ownership of a dude ranch by a financial co-operative, of a donut franchise by an agricultural co-operative, of a strip club by a credit union. Desjardins is involved in at least 24 ventures ranging from car leasing to insurance to a venture-capital corporation. Co-operatives are involved in partnerships and joint ventures with other co-operatives and joint ventures with investor-owned corporations, hold shares in both co-operatives and corporations, and own or control subsidiary corporations. Saskatchewan Wheat Pool, for example, has at least 18 joint ventures with co-operatives and corporations and owns or controls at least two corporations.

Thus, the majority of multiactive co-operatives began modestly as localized intimately governed unifunctional organizations which broadened the scope and nature of their business activities over a period of time. Some have suffered severe financial reverses which have been attributed by present CEOs to this diversification; others,

despite similar diversification, have not. An overview of the co-operatives studied is contained in Table 5.A.⁹⁹

5.2 Size

Numbers of members ranged from Scotian Gold's vastly reduced number of 142 active members to Desjardins' 4.5 million first-tier members. The first-tier or nonfederated co-operative with the largest membership was Saskatchewan Wheat Pool, with 88,000 members. Some of the wealthier co-operatives were owned by a relatively small group: Scotsburn, for example, with assets of \$37.5 million, is controlled by 400 active members whose common bond is defined as *bona fide* farm operation.

In terms of market impact and market share, Desjardins in Quebec and Saskatchewan Wheat Pool in Saskatchewan play major roles in the economies of their provinces.¹⁰⁰ Desjardins is pervasive throughout Quebec, the majority (4.5 million) of the adult population are members and its investment activity is claimed by its president to be on a scale which would support a financially independent province. Saskatchewan Wheat Pool handled over half the grain grown in Saskatchewan in 1989¹⁰¹ and has approximately 88,000 farmer-members, a figure which includes most of farmers in the province. As major employers (Desjardins with 38,000 employees and Sask Wheat Pool, 3235), these co-operatives have a major impact on the economies of their respective provinces.

Investment activities aside, all co-operatives in this sample, except Desjardins and SECUL, supplied their services to nonmembers. As its members are other co-operatives, all Co-op Trust services are supplied to nonmembers. Those co-operatives which distribute goods on a wholesale or retail basis made no distinction between supplying members and nonmembers. In some cases, membership was narrowly confined, an example being Co-op Trust's restriction to co-operatives and credit unions. In other cases, such as SECUL, the membership bond widened from teachers only to include their families, and then to include anyone in the geographic area.

Both in gross numbers and in regional and even provincial economic impact, the co-operatives in this sample, with three exceptions, do not fit the localized *market-niche* model. These exceptions—Scotian Gold, East Chilliwack and SECUL—have past histories of exceeding the niche, and at least two have future hopes of doing the same.

⁹⁹ See p. 91.

¹⁰⁰ Coopérative Fédérée and Federated Co-operatives Ltd. also have significant impact in their respective provinces but to a lesser extent than Desjardins or Saskatchewan Wheat Pool.

¹⁰¹ Murray Fulton et al., *Economic Impact Analysis*, p. 36.

5.3 Investment

While a clear line cannot be drawn between activities undertaken purely for investment purposes and activities whose management is the direct concern and responsibility of the *parent* or *sibling* co-operative, some observations about the purpose, type and general characterization of investment activities may be made. First, the range of investment activity available to a financial co-operative is *prima facie* broader than that of a nonfinancial co-operative and lacks the functional definition suggested by a nonfinancial cooperative's mission statement or sense of central business purpose. The purpose of a financial co-operative is the placement and utilization of capital and, as the Desjardins example shows, the co-operative is free to set its own investment agenda and goals.

Other co-operatives are more or less bound by their perceptions of their mission. Scotsburn and Dairyland, for example, would be unlikely to place money in an Alberta oil well. However, each defines its central business activity, marketing milk produced by member farmers, very broadly to incorporate other people's frozen nondairy novelties or frozen foods or boxed juices. Both are shareholder-driven and place member investment interests on par with investment interests of the co-operative itself.

Saskatchewan Wheat Pool investments are especially varied and diversification is a stated investment goal, but the Pool justifies each venture as meeting member needs, creating markets for its produce, or humanitarian. Investment criteria are: within its area of economic concern (or central business purpose, defined as anything to do with food, human or animal) and social responsibility. Some inconsistencies arise, however. For example, Saskatchewan Wheat Pool declined to invest in Northland Bank "because we are not in the banking business," yet it invested in 25 percent of CoEnerCo, an oil company whose nature would appear equally distant from the food-centred mission of the Pool. Desjardins declined to invest in CoEnerCo when asked, because the Desjardins Investment Society is "a defensive fund for Quebec." As a financial co-operative with special status in the province, its investment activities are exceptionally wide. However, central investment purposes are clear: Quebec ventures are given priority, where other criteria are met and no other funding is available. Job creation, local economic control and self-development are goals here, within a broader strategy of control and development of the Quebec economy. Also embraced by this strategy is investment outside Canada, purely for profit to be returned to the Quebec economy.

The other side of the coin, investment for stability rather than for growth or ideology, is seen in the landholdings of Nipissing and SECUL and in the *negative investment* of Scotian Gold in its refusal to sell off valuable real estate holdings despite massive debt. Stability and maintenance of market share and even the future existence of the co-operative are also linked to *getting bigger*. Thus, expansion of facilities, of range of business activities, and of investment dollars was seen as essential to “being here in the year 2000.” This equation of survival and expansion was made by nine of the eleven co-operatives.

As noted earlier, the range of business forms and purposes is as varied as that of investor-owned corporations. The trend toward joint ventures both within and outside the sector, and investment in or purchase of subsidiary corporations, is one that appears to be accelerating. Capital formation is seen as an increasingly important problem in this expansion. Managers attribute this to a number of factors: apathy and loss of the spirit of self-help, limitations imposed by co-operative principle and lack of public understanding of the value of co-operatives. The perception of most of the co-operatives surveyed is that traditional sources of capital are drying up and new sources are not appearing.

Experimentation, as expected, has characterized all the co-operatives in this sample. For some, the days of highly diversified business activities are over, at least for now. For others at the higher end of the scale—Desjardins, Sask Wheat Pool, and Fédérée—and for those in the mid-range—Federated Co-operatives, Dairyland, Scotsburn, Nipissing and Co-op Trust—diversification and some degree of experimentation are viewed as the route to stability or even continued existence as well as to increased market share. A summary of some of the salient attributes of the investment strategies of the co-operatives studied is contained in Table 5.B.¹⁰²

5.4 Management Structure

Share structure and voting rights are tied together in co-operatives as well as in investor-owned corporations. The co-operative requirement of one vote per member regardless of shares held has traditionally meant that nonmembers cannot hold shares in the enterprise. However, one co-operative in this sample, Coopérative fédérée, *went public* with a class of preferred shares in the mid-1980s, with some limited success. A second co-operative, Saskatchewan Wheat Pool, recently announced its intention to

¹⁰² See p. 92.

consider such a step.¹⁰³ A third co-operative, Scotsburn, sells preferred shares to non-member patrons to enable discounting of diesel fuel purchases. Three co-operatives issue both common and preferred shares to members.

There are other deviations from the classic interpretation of the *one member, one vote* principle. Special voting rights accrue to preferred shareholders which are additional to their voting rights as member/common shareholders. One first-tier co-operative, Co-op Trust, weights the votes of its member co-operatives. All second-tier co-operatives in this sample, except Desjardins, weight the votes of their member co-operatives. Desjardins' structure renders this unnecessary. Weighting is done in accordance with the membership of the corporate member, not its wealth or investment in the co-operative. The apparent deviation from *one member, one vote* is in fact a recognition of democratic representation. Fédérée, a second-tier co-operative, has a complex patronage-based, as well as membership-based, formula for balancing-out the voting power of its corporate co-operative members. Because buying power is rewarded here, more than purely democratic values are protected. A summary of the management structures of the co-operatives studied appears in Table 5.C.¹⁰⁴

¹⁰³ In "Pool Considers Private Investors to Make Ends Meet," The Western Producer, November 14 1991, p. 3, Milt Fair, CEO of Saskatchewan Wheat Pool was quoted as saying, "We have hired a consultant and are actively exploring capital accumulation alternatives. Clearly, one of the ways is to go to the public." He also discussed the European co-operatives' experience with two classes of shares, one for members, the other for investors.

¹⁰⁴ See p. 93.

Conclusion

The development of co-operative principles and practice is interactive. Principles and their interpretation inform practice at all levels: legislation, formation, structure, decision-making, goal-setting, day-to-day management, government and market relations. Practice is driven by a changing marketplace and member expectations. Changes in practice in turn inform principle, necessitating the continuing reinterpretation and reformulation of principle. This revision is not inconsistent with the Rochdale model: the Rochdale founders themselves revised their “Laws and Objects” three times in the first ten years of operation.

Despite a wide variation in co-operative form and function, there remains a central identifiable core structured around values of autonomy, democracy and equity. This core may be less visible in very large, business-orientated co-operatives. In size, profile, growth, market share, investment, marketing and management, some co-operatives appear indistinguishable from ordinary business corporations. However, as long as provision is made for democracy and the equitable disbursement of profit, these enterprises are identifiable as co-operatives. Far from being marginalized by national and international co-operative organizations, large multiactive enterprises play a key role in co-operative development.

Variety, experimentation and growth are all characteristic of the Rochdale model. Within 20 years of the founding of the Toad Lane Store, Rochdale was an agglomerate of some 600 societies with over 273,000 members. Activities included manufacturing, building, education and health care, and a second-tier supply co-operative had been established.

As was the case with the original Rochdale co-operative, the marketplace continues to exert a major influence on co-operatives today, particularly on those which engage in a variety of enterprises and hold, or once held, an appreciable market share. Survival in a capital-driven market places concern for profitability and acquisition of capital high on the co-operative agenda. The co-operative is now referred to as an entity quite distinct from its membership, one which must *survive* even in the face of waning member support. Decisions to enter joint ventures, create private companies, invest widely, and generally to be experimental in business undertaking, and take at least some risk, are fueled by these *second-level* economic needs.

The widespread use of professional managers is to some extent implicated in this shift, as members have become distanced from the direct operation and concerns of the co-operative. The challenges recently posed by unsuccessful investment activities,

coupled with a long-standing loss of operative democracy, have led to a shift in responsibility for democracy. Prior to the mid-1980s, responsibility for the exercise of democratic control rested with the members; it is now said to rest with the board and management and there is a renewed emphasis on board control and member participation. The professional managers studied have taken steps to meet this responsibility, despite strong ideological conflict with co-operative principle in some cases and, in most cases, conflict in management pace, preference and style.

The language and concerns of operation in co-operative business enterprises have changed to reflect those of the ordinary business corporation. This is in part attributable to the use of professional managers, but it also reflects a change in member attitudes and expectations. Whether the loss of fervour or of loyalty is to be regretted is dependent on the values added onto or read into the traditional core values. The Canadian co-operative movement was inspired less by direct conflict with capitalism, and experience of its sometimes deadly excesses, than by a combination of factors: agrarianism, populism, and isolation from markets, financing and readily utilized natural resources. Implicit in the first two is a strong conservative morality and in the third, perhaps frustration coupled with community reliance. The *missionary fervour* which characteristically resulted waned with these ideologies and needs.

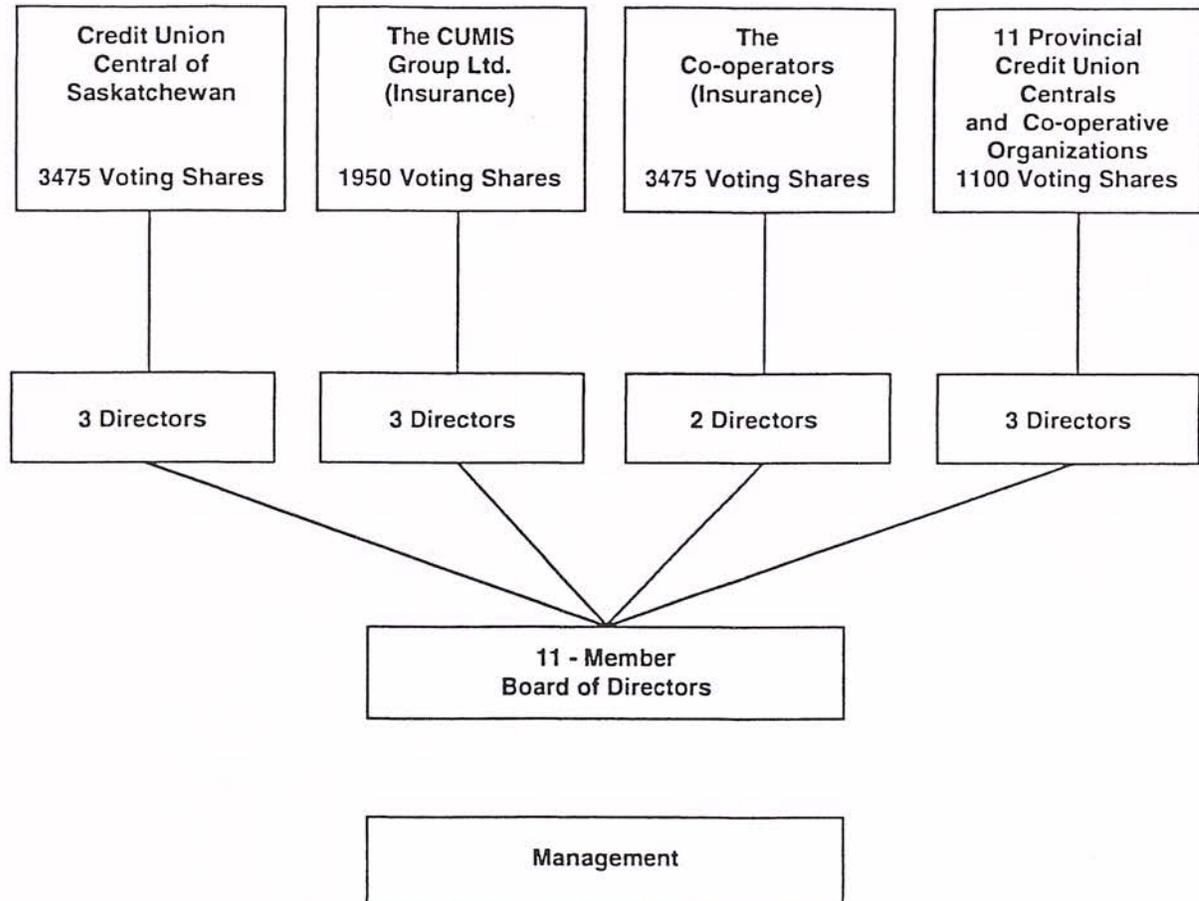
Mouvement Desjardins is a case in point. Born at the turn of the century when those values were strong, it experienced a sort of psychological rebirth of mission with the rising consciousness of Québec's distinctiveness in the 1970s. It currently pursues an aggressive investment policy with the aim of economic self-sufficiency for Québec. Similarly, the Saskatchewan Wheat Pool, faced with declining prices, has stepped up its investment activity to provide and control its own markets and to recover missing profits from other sources: the aim appears to be the preservation and strengthening of its prairie agriculture roots.

In filling market niches rejected or ignored by more mainstream businesses, co-operatives have always been risk-taking experimental enterprises. In branching out into a variety of fields, forms and functions, and in undertaking *nontraditional* activities, co-operatives are continuing to experiment. The difference is that these *experiments* are now carried out in an area traditionally occupied by ordinary business corporations. Co-operative expertise has been challenged by its new competition. The employment of professional management and the adoption of up-to-date business practices were likely necessary responses to these challenges but may have widened the gap between member and management. It is this gap, not risk-taking and experimentation in business

undertakings, which is the major challenge identified by the co-operative sector. How this challenge is being met warrants further study.¹⁰⁵

¹⁰⁵ Such a study could embrace steps taken to improve participation and communication, the nature of board–member relations, and the member–management *gap* from a member viewpoint, in a variety of co-operative forms. The study of public perception of co-operative enterprise would be a useful adjunct.

FIGURE A
CO-OPERATIVE TRUST COMPANY OF CANADA
CONTROL STRUCTURE
(Effective November, 1985)



NOTE ONE

Eleven voting shareholders hold 100 voting shares each: Credit Union Centrals of Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba, Alberta and British Columbia; La Federation des Caisses Populaires du Manitoba Inc.; Saskatchewan Wheat Pool; Federated Co-operatives Ltd, and United Co-operatives of Ontario.

NOTE TWO

The voting shareholders and approximately 575 other co-operatives and credit unions hold 2,016,800 non-voting Common and 1,203,900 non-voting Preferred Shares.

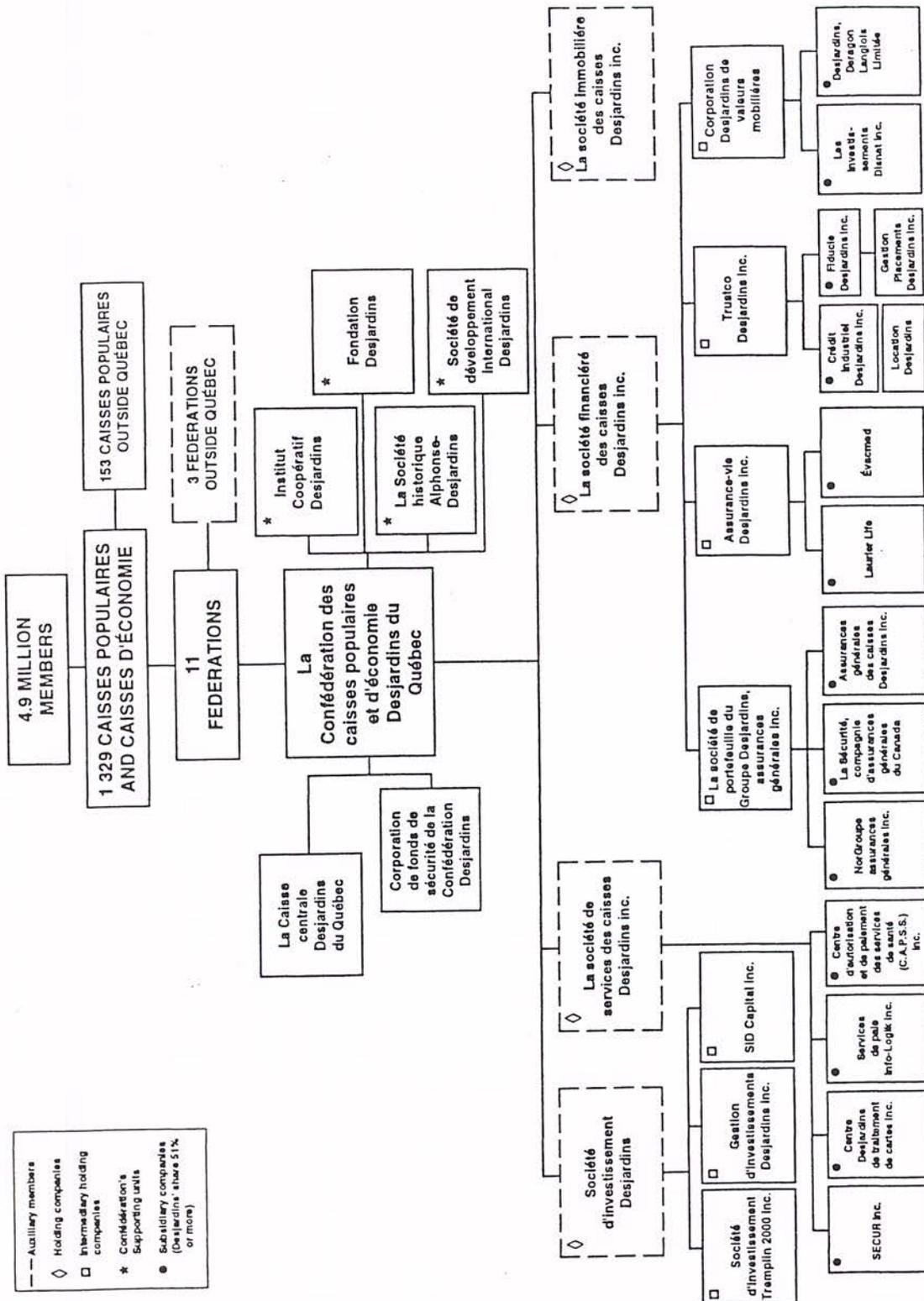
NOTE THREE

There are 10,000 authorized and issued voting shares.

NOTE FOUR

Each voting shareholder is entitled to one delegate.

FIGURE B
MOUVEMENT DES CAISSES DESJARDINS



— Auxiliary members
 ◇ Holding companies
 □ Intermediary holding companies
 * Confederation's Supporting units
 ● Subsidiary companies (Desjardins share 51% or more)

FIGURE C

SASKATCHEWAN WHEAT POOL

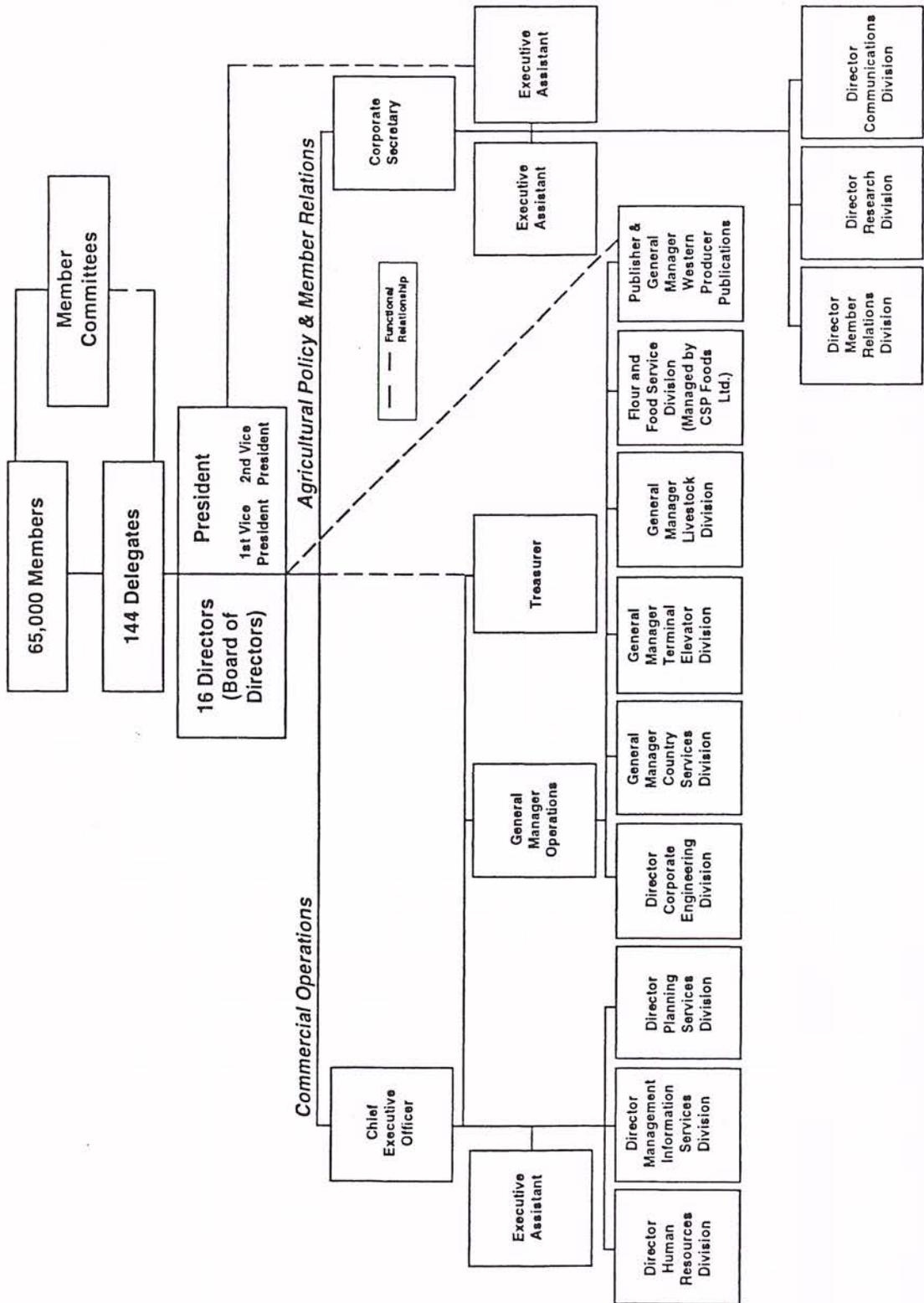


Table 5.A
Overview of Co-operatives Studied

Co-operative	Type	Membership		Founded	Growth Patterns ¹ Since 1975	Revenue (\$ million)	Assets (\$ million)
		Individual	Corporate				
Coopérative fédérée	Agricultural retail; wholesale; marketing	2,140	101 co-ops	1930	2	1,350	352
Co-op Trust	Trust company	—	600 co-ops	1952	3	80.1	862
East Chilliwack	Agricultural; consumer; supply	1,130	—	1947	3	57.2	18.1
Federated Co-ops	Wholesale; consumer	—	332 co-ops	1928	2	1,579	635
Fraser Valley	Agricultural marketing	2,000 ²	—	1913	1	4.9	112
Mouvement Desjardins	Financial services	4.9 million	400,000 ³	1900	1	5,145.7	48,200
Nipissing-Sudbury	Consumer retail	3,200	—	1950s	3	3.9	4.5
Sask. Wheat Pool	Agricultural marketing and supply	88,362 ⁴	—	1923	1	1,940	462
Scotian Gold	Agricultural marketing	140 ⁵	—	1957	3	4.2	2.5
Scotsburn	Agricultural marketing	2,300	—	1900	2	145	37.5
SECUL	Credit union	12,000	some ³	1950s	3	7.5	73.4

¹ The categories for growth patterns are described as follows:

1 = major economic growth

2 = steady development

3 = major setbacks experienced.

² Estimated 687 active members.

³ Includes co-operative and ordinary business corporations.

⁴ Estimated 65,000 active members.

⁵ Estimated 90 active members.

Table 5.B
Investment Strategies

Co-operative	For Stability ¹	To Support Other Enterprise ²	Business Ventures ³		Experimentation ⁴	
			Past	Present	Past	Present
Coopérative fédérée	x	x	3	3	2	2
Co-op Trust	x	x	3	3	3	1
East Chilliwack	x	–	2	1	2	1
Federated Co-ops	x	–	3	3	1	1
Fraser Valley	x	–	1	1	2	2
Mouvement Desjardins	x	x	3	3	3	3
Nipissing-Sudbury	x	–	0	0	2	2
Sask. Wheat Pool	x	x	3	3	2	3
Scotian Gold	–	–	2	1	3	1
Scotsburn	x	–	2	2	2	2
SECUL	–	–	2	0	3	1

-
-
- 1 This column identifies co-operatives which invest to secure markets, supply lines and facilities expansion.
- 2 This column identifies co-operatives which invest to support specified interests or types of enterprise (other co-operatives, regional development, language and culture).
- 3 “Business ventures” refers to involvement with subsidiaries, shares in other corporations, and joint ventures with other corporations and co-operatives. These are quantified as follows:
0 = no ventures
1 = 1–4 ventures
2 = 5–9 ventures
3 = 10 or more ventures.
- 4 “Experimentation” identifies an amalgam of factors — comparative degrees of risk taking, variation in business activity, and investment diversity — quantified as follows:
1 = low
2 = medium
3 = high.

Table 5.C
Management Structure

Co-operative	Shares Held by Nonmembers	Preferred Shares	One Member, One Vote	Board Composition
Coopérative fédérée	–	x	–	Elected by region
Co-op Trust	–	x	–	Appointed by major shareholders
East Chilliwack	–	–	x	Elected ¹ at large
Federated Co-ops	–	–	–	Elected by region
Fraser Valley	–	–	x ²	Elected at large
Mouvement Desjardins	–	–	x	Elected by region
Nipissing-Sudbury	x	–	x	3 elected at large and 4 by region
Sask. Wheat Pool	–	–	x	Elected by region
Scotian Gold	–	–	x	Elected at large
Scotsburn	x	x	x ²	3 elected at large and 6 by region
SECUL	–	–	x	Elected at large

¹ The agricultural co-operative appoints four members to the board of the consumer's co-operative.

² Active members only.

Appendix A

Co-operatives and the State: Autonomy, Democracy, State Intervention and Legislative Control

1. Co-operatives in Context

- (a) Brett Fairbairn et al. “Co-operative Institutions: Five Disciplinary Perspectives”. In Murray Fulton, ed. *Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change*. Toronto: University of Toronto Press, 1990.

“What are co-operatives? Idealistic counter-culture alternatives to mainstream business, or hard-headed economic enterprises, differing from big businesses only in details of their ownership and voting structure? Are they exotic fringe phenomena, or prominent community institutions? Methods of correcting monopoly abuses, or seeds of a new society? Agents of social progress, or holdovers of pre-industrial values? Some have argued that they are for the working classes, the poor, and the powerless; others that they are for small producers. These are dilemmas buried in the popular conceptions and in the self-perception of co-operatives. There are elements of truth in all these generalizations, but the best generalization may be ‘all of the above’—depending on the exact context and the observer's point of view. Assumptions, standards of comparison, the social environment, and the purpose of the discussion shape our interpretations of co-operatives. We may well find, on closer inspection or on examination from a different point of view, that co-operatives are something other than what they appear or were assumed to be.” [pp. 13-14]

“...[C]o-operatives as institutions, even their internal structures, cannot be studied in isolation from their environment. Historically they have consciously reacted to and borrowed from that environment in a way that gave special meaning to some of their unique structures and features.” [p. 37-38]

2. History of the Theory of Co-operative/State Relations

- (a) G. Davidovic. *Towards a Co-operative World: Economically, Socially, Politically*. Antigonish, N.S.: Coady International Institute, St. Francis Xavier University, 1967.

“Co-operative progress also depends, however, and to a considerable extent on the State, its attitude to Co-operation, its policy ...

The State attitude depends, of course, also on the attitude of the co-operatives themselves, on their character, trends and ends ...

The early co-operative thinkers were intensely interested in State–Co-operation relationships. Some of them were in favour of close, friendly ties with the State. Others,

on the contrary, wanted co-operatives to be remote from the State and its influence. There were endless and often violent controversies on this subject ...” [p. 48]

“State attitude to co-operation differs according to whether the State is democratic or dictatorial, liberal or totalitarian, progressive or conservative, fascist or communist, developing or developed.” [p. 50]

- (b) Brett Fairbairn. “Co-operatives as Politics: Membership, Citizenship and Democracy.” In Murray Fulton, ed. *Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change*. Toronto: University of Toronto Press, 1990.

“Many leaders of co-operatives have claimed that political neutrality is one of the basic principles of co-operation and that any violation of such a principle is divisive and threatening. They argue that co-operatives require unity and cannot afford to alienate members by taking political stances, and that they are economic and self-help associations and politics is none of their business. While this is undoubtedly true in many instances, history suggests that the relationship between co-operation and politics is much more complex than such generalizations show. A sort of ‘neutrality’ was for a long time a principle of the British co-operative movement....” [p. 129]

“Co-operatives define their philosophy and find their niche in society where neither private capital nor government planning are optimal; they are ‘autonomous.’ The principle of self-help practiced by members of co-operatives corresponds to a self-help attitude of the co-operative movement as a whole, which looks inward for solutions rather than outward to society’s most powerful institutions. Yet this historical attitude sits uneasily with the need of co-operatives for a suitable legal basis....” [p.139]

3. Restatement of the Rochdale Principle of Democratic Control

- (a) International Co-operative Alliance. Central Committee, Helsinki, Finland, August 1950. 43 *Review of International Cooperation* 231.

“[Co-operative organizations] must be free and independent of state pressure.”

- (b) International Co-operative Alliance, Congress of Paris. 1937: Resolution on co-operation in different economic systems, as cited in W.P. Watkins. *The International Co-operative Alliance 1895-1970*. London: The Alliance, 1970.

“That Co-operation, as a form of expression in social activity of its own, is possible and necessary in all the different kinds of economic and political systems, even though its tasks and importance vary in different systems, principally depending upon the character of the social groups which have obtained possession of the State power.

That the Co-operative Movement in all economic systems demands for itself complete freedom of activity on the basis of its own principles, and repels all effort to control politically its activity.

That the Co-operative Movement, wherever a regulated economy in some form or other has been put into power, rejects measures that hinder the national or international development of its activity, just as it rejects any efforts in a socialist economic system to concentrate the whole economic activity in the hands of public bodies?" [p. 207]

(c) International Co-operative Alliance. *Report of the ICA Commission on Co-operative Principles*. London: ICA, 1967.

"There is no doubt in the minds of the Commission that democracy in the management of co-operative organizations necessarily implies autonomy in the sense of independence of external control, apart from the obvious obligation of co-operative societies to bow to the same general laws as all other business undertakings and accept the discipline imposed by the State or the planning authorities. In a fully developed co-operative unit the management must rest in the hands of the members and all decisions be taken by the co-operators themselves, with no external interference. Autonomy is therefore a corollary of democracy?" [p. 20]

"Co-operative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form?" [Approved by the 23rd Congress of the ICA, Vienna, 1966. [p. 40]

4. Commentary on the Principle of Democratic Control

(a) W.P. Watkins. *Co-operative Principles Today and Tomorrow*. Manchester: Holyoake Books, 1986.

"Liberty, as a Principle of Co-operation, is here considered in two main aspects. The first is the Liberty of the individual men and women who become members of Co-operatives; not only their freedom to join or leave them at will, but also their freedom of thought and action while they are members. The second is the Liberty of Co-operative institutions within the structure of of society as a whole and also within the framework of the national and international Movements of which they form part ... the freedom, individual and collective, required by Co-operative organizations as an essential condition of their functioning effectively." [p. 92]

“The more the State departs from *laissez faire* and assumes general responsibility for economic progress and social welfare, the more will it become involved with the Co-operative Movement and the Movement with it.” [p. 98]

“Co-operation, if it is to display its richest potentialities, demands a freely-accepted discipline for the achievement of common ends, themselves freely chosen.” [p. 107]

(b) Emory S. Bogardus. *Principles of Cooperation*. Chicago: The Co-operative League of the U.S.A., 1964.

“The idea of freedom that is implicit in voluntary action involves the principle of autonomy. A co-operative association seeks to maintain its identity as an autonomous enterprise by asking no special favors from government or the state. ...It asks only for the freedom to function as an autonomous enterprise under such rules as a democratic government may find necessary to apply to all other types of enterprise.

Autonomy is opposed to paternalism, for the latter ‘strikes at the root of the liberty of the individual.’ It keeps itself free from being ‘dominated by changes in the political situation.’ It favors no bureaucratic supervision by government, but works under government rules designed to safeguard any form of democratic free enterprise.” [p. 29-30]

“...The autonomous nature of co-operative associations is indicated by their non-partisan political attitudes. The Rochdale Pioneers early declared their freedom from connections with any existing political party... However, for the protection of co-operation as a way of life, co-operative associations have found it necessary to maintain legislative committees, public relations committees, or similar committees...” [p. 31]

“...For a co-operative to act as a free co-operative it is important that it remain free of control by the government in which its members live. [p. 36] ...Autonomy is intrinsic in co-operative associations, for they are ‘the freest of all free enterprises.’ Individual members have the largest democratic voice which they are willing to exercise. [p. 37] ...It would appear that the term ‘co-operatives’ is a misnomer in any country where the people are not free to join or to refrain from joining; where government or political party officials choose the ‘co-operative’ directors, where these groups serve needs of over-all economic planning rather than the needs of their members, and where the members receive no patronage refunds?” [p. 38]

(c) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“Co-operative autonomy is the right of the members to determine for what purpose and how their co-operative society should be organized under prevailing socio-economic conditions, in accordance with the co-operative law in force and with the government

policy concerning co-operative development.... [Autonomy] is the autonomy of the members to set the goal for their joint effort, i.e. to define the objects of their society, which in this case would correspond to the felt need common to all members of the co-operative group.” [p. 67]

“Outside control in the form of direct intervention of government co-operative officers in the decision-making of the board of directors or in the work of the manager would leave the board members and the employed staff of the societies with the responsibility for but without the power of decision-making....This would be in contradiction to the principles of self-help, identity and democratic management and control and—as a permanent measure—would destroy the co-operative character of the organization in question.” [p. 49]

(d) Government of Newfoundland and Labrador. Department of Rural, Agricultural and Northern Development. “Role of Government in Co-operative Development.” The Department, 1983.

“Generally speaking, our policy is to encourage and assist in the development of co-operatives when requested by, and as a result of constant dialogue with our Co-operative and Credit Union Centrals. Our's is a support role to the leadership role of the Movement?” [p. 3]

“The Government’s role, broadly, is to foster all forms of business afforded by the economic system within the boundaries of the province which will enhance the provincial economy...To quote the Minister of Rural Development ... ‘All our efforts will be in support of yours. We will not attempt to do anything for co-operatives which they are capable of doing for themselves, lest we destroy their autonomous nature.’” [pp. 5-7]

5. Influence of Political Context on Co-operative / State Relations

(a) Murray Fulton and David Laycock. “Co-operatives and Government.” In Murray Fulton, ed. *Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change*. Toronto: University of Toronto Press, 1990.

“The theme of this chapter is that co-operatives encounter special difficulties and advantages in their attempts to influence the nature of public policy in Canada. When it comes to assessing their net impact, however, we encounter problems?” [p. 157]

“Canadian co-operatives have generally been led by people suspicious of close relations between co-operatives and the state. This suspicion has been expressed in two forms: a disinclination to become involved in broad-ranging public policy discussions, and an opposition to expansion of state enterprise except where it directly promotes co-operatives' institutional interests?” [pp 142-243]

“The [establishment of the] Co-operative Secretariat can be considered as a response to the 1984 National Task Force’s request... Such a proposal is a major departure from the Canadian co-operative tradition of anti-statist political neutrality. It also carries the potential of reducing the democratic character of inter-co-operative and intra-co-operative activity in Canada to dangerously low levels. But even if co-operatives do sacrifice crucial amounts of autonomy, democratic responsiveness, and their movement’s grander social objectives, the secretariat may still not significantly increase co-operatives’ collective policy clout in Ottawa.” [p. 153]

(b) George Melnyk. *The Search for Community: From Utopia to a Co-operative Society*. Montréal: Black Rose Books, 1985.

“The three basic characteristics that distinguish liberal democratic co-ops from other co-operative ventures [in the Marxist, Socialist and Communalist traditions] are first, an emphasis on private property; second, a basic tolerance of capitalism; third, a pragmatic unifunctionalism. These characteristics evolved out of the Rochdale model during the nineteenth century and have come to define most of the co-operative institutions prevalent in Western Europe and North America.” [p. 15]

“The modes of operation and labour relations developed by capitalist firms became part of co-operative reality as well

Co-operative tolerance of capitalism was a necessity that turned into a virtue. It was their pragmatism that made Rochdale-style co-ops popular and successful. They did well in the marketplace and so they had no reason to fight for its elimination. Their members joined co-ops not to end capitalism but to improve their personal economic situation. Liberal democratic co-ops were integrated into the dominant system right from the start.

The essence of liberal democratic co-ops is successful competition with capitalism through short-term and immediate benefits to its members. This pragmatic approach appealed to the person's self-interest rather than to his idealism and it demanded a reconciliation between the co-operative and the private sectors.” [p. 17]

“[Minimum member involvement in liberal-democratic co-operatives] is precisely what makes them attractive and effective in capitalist societies. Over one hundred million people belong to one kind of co-operative or another in Western Europe and North America, yet this vast membership does not threaten the dominant capitalist mode of production. Based on a strict voluntarism, liberal democratic co-ops have evolved into finely tuned examples of co-existence. They demand little from their members while offering them favourable terms of participation in the economy.” [p. 18]

“Because these co-ops compete with private business on terms and conditions determined by the private sector, their sense of reform is rather limited....They have discovered a niche in the system and like other institutions work diligently to protect it.” [p. 18]

“The Canadian experience is primarily of the liberal democratic kind... As part of the international capitalist economy, Canada has tended to limit co-operative experience to the strict Rochdale model [as defined by the ICA].” [p. 19]

“The Rochdale ideology was primarily one of liberal democracy. The concept of one person/one vote was a famous nineteenth century cry for reform by the vast disenfranchised majority... But the fundamental voluntariness of participation meant that co-ops could succeed only when they were good competitors in the general system. Loyalty to the co-op was maintained by material benefits; if these disappeared, the co-op disappeared... Although co-ops saw themselves as an ‘alternative’ to capitalism they had to match their capitalist competitors in serving their customers. This rationale eventually caused them to downplay co-op ideology and ideals.” [p. 29]

“A typical contemporary co-operative experience is that of the person who is a client or customer of the Co-operators and whose relationship to it is purely that of a consumer....When co-operation becomes a way of business rather than a way of life the missionary zeal of the earlier period becomes an embarrassment. It upsets corporate strategy and threatens corporate interests.” [p. 25]

(c) A.F. Laidlaw. “A Decade with the C.U.C. 1958-1968.” 12 (1969) *Canadian Co-operative Digest* 14.

“But one tension, I expect, will remain—that between the reforming element and the more conservative. For the co-operative movement leads a sort of double life: it has a mission to reform, but it also has a big stake in business institutions and substantial vested interests to protect. There will always be some tension between the two elements and in Canada the aim seems to be to maintain them in an uneasy balance?” [p. 19]

6. Government Intervention

(a) A.F. Laidlaw. “Co-operatives in the Year 2000: A Paper prepared for the 27th Congress of the International Co-operative Alliance, Moscow, October 1980.” London: The Alliance, 1980.

“Co-operation as a social and economic system is not based on one specific concept or social theory but on a collection of many ideas and concepts, such as mutuality, the weak combining in solidarity for greater strength, equitable sharing of gains and losses, self-help, a union of persons with a common problem, the priority of man over money, the non-exclusive society, even the search for Utopia ... The overriding concept present in all co-operatives is this: a group of people, small or large, with a commitment to joint action on the basis of democracy and self-help in order to secure a service or an economic arrangement that is at once socially desirable and beneficial to all taking part.” [p. 32]

“What is the proper role of government?”

-To encourage, befriend, and sometimes assist with financial support, but never dominate, direct or try to manage.

-In the next twenty years, relations with government will likely become a major problem with co-operatives in many countries.

-Co-operatives that aim to improve the condition of the poor will need special assistance from government, but again, it must be assistance without bureaucratic and intimate supervision.

-If co-operatives are to be used as strong instruments of economic development, experienced co-operators must be involved in national planning.

-All too often, the strong embrace of government ends with the kiss of death for co-operatives.” [p. 69]

(b) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“To submit some potentially dangerous decisions of co-operatives to the approval of the Registrar may be in line with the autonomy principle, however, to require the Registrars’ prior approval for all major decisions and business transactions of co-operatives is certainly not. Here quantity may change into quality. In so far it appears to be impossible to draw a clear borderline between tolerable and undue restrictions of co-operative autonomy.” [p. 68]

“If government control is exercised exclusively with the aim to correct wrong or dangerous decisions when necessary, the the rights of the members to decide their own affairs may still be real...

...Where all important decisions of the members are made subject to the approval of the government agency in charge, the members' powers of decision-making become fictitious?” [p. 40]

(c) David Laycock. “Level and Style of Government Intervention in Co-operative Business Activity.” In Murray Fulton, ed. *Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change*. Toronto: University of Toronto Press, 1990.

“This chapter has very specific and limited objectives: to characterize and provide some examples of the formal relationships between co-operatives and governments in Canada...

Several features characterize [these] formal relationships...:

1) division of responsibility for co-operative enabling and regulatory legislation between the federal and provincial governments, with provincial paramountcy in most matters of regulation and administration for most co-operatives;

2) considerable autonomy of co-operatives from control or direction by state agencies;

3) formal recognition of the distinctiveness of co-operatives relative to the private sector, but unsystematic integration of co-operative organizations into the economic policy-making processes of governments;

4) a low level of state financial support or promotion of co-operative economic development projects, relative to that provided by the private sector.” [p. 278]

“Canadian co-operatives have traditionally insisted upon as much autonomy from state control as the private sector, if not more. This insistence has its roots in several things: a suspicion of the state as an agent of compulsory action (as opposed to voluntary, collective self-help); a concern about the close links between powerful private economic interests and particular governments; and a commitment to political neutrality, which would be endangered if close links were forged between co-operative leaders and officials in the government departments and dominant political forces of particular regimes.” [p. 280]

7. Legislation and Autonomy: International Context

(a) Torben Bager. “State Policies and Legislation vis-a-vis Co-operatives.” In *Co-operatives Today (Selected Essays from Various Fields of Co-operative Activities)*. Geneva: International Co-operative Alliance, 1986.

“Legislation on co-operatives varies tremendously throughout the world. Denmark is the one extreme with no co-operative law and government support of only marginal importance. Some developing countries and some socialist countries are the other extreme with detailed laws and massive government intervention vis-a-vis co-operatives. Furthermore, the character of the co-operative laws varies a lot from country to country. Some countries, like Germany, Sweden and the Netherlands, have genuine co-operative laws, while in other countries the co-operative law is built upon legislation concerning limited liability companies.

The huge variations in the international pattern make it difficult to reach clear conclusions, but both theoretical and empirical research results make the following assumptions reasonable:

- Co-operatives cannot be developed solely by law and government support.
- The consequences of co-operative legislation and government support depend on its character, but usually the consequence is a perversion of the co-operatives.” [p. 46]

“The autonomy of co-operatives may be limited by legislation and by the control which follows state subsidies. ... [T]he desirable type of law is a law outlining some broader frames for co-operative activities but avoiding the ambition of detailed prescriptions concerning almost all thinkable circumstances and matters. ... [T]he law should be built upon the characteristics of co-operatives instead of copying the law concerning limited liability companies.” [p. 51]

- (b) K.K. Saxena. *Evolution of Co-operative Thought*. Bombay: Somaiya Publications, 1974.

“Co-operatives function in a given social set-up and as such their growth and development are also influenced by social environment. To a great extent, even the functions and character of co-operatives are also influenced, or rather determined, by the social and political tone. Hence, we find a variety of qualitative and complex differences in the nature and functioning of co-operatives in various regions. ...[O]ne of the major problems with which cooperatism is faced today is its relation with the State?” [p. 105]

“Too much of government interference and meddling in the affairs of co-operatives is likely to retard their pace of development. Co-operatives, like the economy as a whole, have to be ‘self-generating’ and ‘self-sustaining.’” [p. 105]

“...[A]lmost every country has a law on co-operatives and the government departments do exercise the function of supervision and promotion... Most of the governments have power to inspect and institute enquiries into cases of irregularities.” [p. 107]

“The state should confine itself to guidance, and supervisory and only a limited amount of control.” [Citing with approval P.C. Jain] [p. 109]

- (c) Hans-H. Munkner, *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“The law should provide that outside guidance and advice should, as a rule, be given only on request either of the societies concerned or of the co-operative union or apex bodies to which the society is affiliated.” [p. 63]

- (d) Hans-H. Munkner. “Co-operative Law as a Tool of Development Policy“ In *Co-operatives Today (Selected Essays from Various Fields of Co-operative Activities)*. Geneva: International Co-operative Alliance, 1986.

“The problem of external help for self-help: Many hold the promotion of self-help organizations by external help is a contradiction per se. Experience has shown, however, that appropriate means, especially information, pedagogical measures, access to modern production techniques, supply and sales markets, can be used to create favourable conditions for the emergence of self-help while other measures, direct help in the financial field especially, may impede self-help more than promote it.

The conception of external help for self-help contains a certain contradiction that becomes clear when taking the fact into consideration that generally, self-help can develop its full potential only when external help cannot be expected.” [p. 323]

“Co-operatives have the chance to develop independently and based on the voluntary, organized co-operation of their members only when they satisfy the interests of their members primarily and bring about a perceptible improvement of their members’ economic and social conditions.” [p. 324]

“Promoted co-operation in co-operatives must be based on a stable and permanent legal structure that enables co-operatives to shape their internal organization purposefully, to protect their members against the co-operative management and the state as well as to protect the co-operative against discrimination and unfair treatment.” [p. 324]

8. Legislation and Autonomy: Canadian Context

- (a) Christopher S. Axworthy. “Consumer Co-operatives and the Rochdale Principles Today.” 15 (1977). *Osgoode Hall L.J.* 137-164.

“The vagueness [of the ICA 1966 reformulation of the Rochdale principles which were intended to broaden ICA membership and give broad scope to co-operative development] does not aid those responsible for administering co-operative legislation in performing their tasks; many provincial legislatures in Canada have, therefore, specified that associations are registrable under co-operative legislation if they operate on a ‘co-operative basis’. This term has not been defined in a uniform manner.” [p. 140]

- (b) Brett Fairbairn et al. “Co-operatives in Institutional Perspective” In Murray Fulton ed. *Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change*. Toronto: University of Toronto Press, 1990.

“Co-operatives have a tradition as democratic and participatory institutions, yet in law and frequently in fact their members have come to have little real power. In legal form and internal decision-making structure, co-operatives adopted many elements evident in the legal and commercial systems that prevailed in the era of their formation.” [p. 20]

“The treatment of co-operatives as charitable institutions was thereby replaced [in 1862] by a more explicitly commercial model, gaining for co-operatives the benefits of limited liability and less restricted operations.” [p. 22]

“The historical and legal development of the co-operative movement shows that co-operatives copied general associational and corporate developments and paralleled the evolution of private firms.” [p. 24]

- (c) Christopher S. Axworthy. “Myth and Reality in Co-operative Organizations: Members, Directors, Employees and Managers.” In Murray Fulton, ed. *Co-operative*

Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change. Toronto: University of Toronto Press, 1990.

“Legislative fiat aside, the organizational form chosen for any economic activity will be the one deemed to be the most efficient. Since co-operatives are avowedly economic and social institutions, non-economic considerations will come into play in selecting an organizational form...

As far as structure within the chosen form of organization is concerned, however, legislation leaves little choice. An organization operating on a co-operative basis could be unincorporated...

The relevant acts will not be suitable for all of the organizations incorporated under them?” [p. 40]

“The Co-operative Movement needs to reassess the ways in which its so-called democratic control structures work or do not work. ...Will form continue to prevail over substance, or will co-operatives return to their roots to meet the challenges of democracy?” [pp. 59-60]

Appendix B

Democracy and Control in Co-operative Enterprises

1. Co-operative Forms, Types and Definitions

- (a) A.F. Laidlaw, "Co-operatives in the Year 2000: A Paper prepared for the 27th Congress of the International Co-operative Alliance, Moscow, October 1980." In *Co-operatives in the Year 2000*. London: ICA, 1980.

"First, as to the type or kind of co-operative, one thing is very clear: the co-operative movement of the future will be made up of a great variety of co-operatives, including some kinds that don't exist or are not even thought of at present...no one type of co-operative should be regarded as inherently superior to another, and instead they should all be judged in relation to the particular needs and most urgent problems of the people concerned. To one group of people at a particular time, a credit co-operative may be the most valuable..."[p. 34]

"A striking feature of the architecture of the co-operative system in the past century has been the building of secondary organizations of various kinds, and then further combining into tertiary, regional, national and even international organizations. This is the most natural and logical thing imaginable ... In the process, power and control usually move upwards and away from the basic co-operative and its members. In time the secondary or tertiary co-operative becomes the seat of power... About all that can be said here, in addition to emphasizing that the principle of democracy must carry through to all levels of the movement, is that control mechanisms for federations and other associations of co-operatives have yet to be worked out satisfactorily and must be attended to in the years ahead." [p. 36]

- (b) Marvin A. Schaar. *Co-operatives, Principles and Practices*. Madison, Wisc.: University of Madison, Department of Extension, 1980.

"Co-operatives could be classified in many different ways because their characteristics differ...

1. By Size
 - A. Volume of business done...
 - B. Number of members or patrons served

2. By Area Served (where members reside)
 - A. Local - market area about a single community
 - B. Regional - large area of one state or of several states
 - C. National - members residing in many states

-
- D. International - members in two or more countries
3. By Type of Membership Affiliation
 - A. Locals - persons or firms of a single locality are members
 - B. Centralized associations - persons residing in a larger area
 - C. Federated -
 1. Local associations are members of central associations
 2. Central associations are affiliated with national co-ops
 - D. Hybrid Type - individuals and locals are members ...
 4. By Legal Status
 - A. Unincorporated - a multiple partnership arrangement
 - B. Incorporated - a legal entity created by law ...
 5. By Financial Arrangement
 - A. Capital Stock - shares of common stock and sometimes also preferred stock are issued.
 - B. Nonstock or Membership Type - no stock issued; membership is non-assignable and not transferable to others.
 6. By 'Who' Constitutes the Membership
 - A. Producers - such as farmers, fishermen, foresters who have products to sell and supplies to purchase.
 - B. Consumers - purchasers of consumption goods or services.
 - C. Workingmen - self-employed; operators of their own plant.
 - D. Businessmen - to purchase merchandise for sale and/or buy supplies for use in their private businesses.
 7. By Principal Functions or Business Activities
 - A. Production associations.
 - B. Processing associations.
 - C. Marketing associations.
 - D. Purchasing associations.
 - E. Service associations.

Each co-operative may fall under several classifications.... Of all the types of co-operatives, the local association is the most common.... The membership of a federation consists of local cooperatives. Sometimes locals are members of district associations or exchanges, and these in turn are members of the central federation.... The centralized association is essentially a greatly expanded local association. The differences between it and a federation are mainly in organization and relationship to members." [pp. 49-53]

(c) F.H. Webster and Helen Kimble. *Specialization and Aggregation: A Study of whether, to what extent and how Agricultural Co-operatives diversify their activities [in Britain]*. Oxford: The Plunkett Foundation for Co-operative Studies [1979]

Definition of Terms

- (a) Specialization: The activity of a single-purpose co-operative which limits itself in respect of:
 - i. the product or commodity dealt with ...
 - ii. the services performed...

- (b) Aggregation: The bringing of disparate activities into a single organization or under central control:
 - i. a number of crops and/or commodities, and/or
 - ii. a variety of services ranging from manufacturing to processing and marketing.

The above are broad classifications which do not do justice to the wide variety of circumstances discoverable in practice. Under this definition practically all requisites co-operatives are considered to be an aggregation of different interests, but a co-operative which collects, transports, dries, stores and markets grain, for example, is still a specialist body. On the other hand, if that same co-operative stored for some and marketed for others, and the two categories of members tended to be separate, it would move towards an aggregation of disparate activities.” [p. 6]

- (d) Lord Oram, Chairman, Co-operative Development Agency. “The Principles and Practice of Co-operation in Rural Areas” Multipurpose Rural Community Co-operatives Seminar. University College of Wales, Aberystwyth 24-25 September 1979. Papers and Report. Oxford: The Plunkett Foundation for Co-operative Studies, 1979.

“At this seminar we propose to examine particularly the role of the community co-operative, for which another name is the multi-purpose co-operative, in bringing new life to declining rural areas.” [p. 4]

- (e) Friedrich Furstenberg. “Problems of Member Participation at Different Stages of Co-operative Development.” In Eberhard Dugler and Walter Hamm. *Co-operatives in the Clash Between Member Participation, Organizational Development and Bureaucratic Tendencies: A Complete Guide to the Creation, Promotion and Supervision of Societies*. London: Quiller, 1985.

“In Western Europe, at least, the last few decades have been characterized by an integrative phase, with increasing concentration of economic units and more and more international connections. Regional and vertical market connections and market organization have also changed the structure of the co-operatives. The integrated co-operative has already proved its worth as a graduated vertical organization with functional assignments and functional connections between economic units. The

co-operative vertical organization system represents a considerable market force....” [p. 111]

“Even in our modern society there must be many and various opportunities for establishing experimental small-scale co-operatives in suitable areas of activity. The modern large-scale co-operatives cannot, however, return to their origins, to a sort of basic co-operative democracy. Modern forms of member integration and participation must match the high level of technological development and the economic division of labour.” [p. 112]

- (f) Oswald Hahn, “Trends Towards a New Co-operative Movement.” In *Co-operatives Today: Selected Essays from Various Fields of Co-operative Activities*. Geneva: ICA, 1986.

“Entrepreneurial preconditions for the success of a co-operative generally and of a productive co-operative in particular are almost exclusively diverging with the ideas of Alternative ideologies generally and the 'mentality of withdrawal' in particular....The existing [entrepreneurial] co-operative organization is expected to accept the new [Alternative] organization as a partner and member of the big co-operative family....” [pp. 219 and 226]

2. Responsibility of Members and the Administration: Problems of Scale

- (a) W.P. Watkins. *Co-operative Principles Today and Tomorrow*. Manchester: Holyoake Books, 1986.

“Evidently, the structure of the Co-operative Movement today expanding in accordance with the principles of Unity and Democracy, imposes a continually increasing burden of responsibility upon the individual men and women who become members and possibly officers of Co-operative societies. Sooner or later, directly or remotely, all that is attempted or accomplished by Co-operative organization—local, national and international—is reported to them for their judgement or approval. To understand what he is told, the typical Co-operator of this century must be conscious on all three of these levels, and consciousness includes not merely being aware but also forming opinions and expressing wishes which may harden into decisions. If he is not equal to making needful decisions, others will decide for him and, as the Movement's functions become more and more professionalized with its growing extent and complexity, it will be its bureaucrats or technocrats, rather than Democracy, who will save it from confusion and ultimate decline.” [p. 72]

- (b) Emory S. Bogardus. *Principles of Co-operation*. Chicago: The Cooperative League of the U.S.A., 1964.

“The democratic principle of distribution of control to each cooperative member sometimes slows up needed efficiency, especially in large associations. The problem is met by keeping centralization of administration subject to widespread distribution of control. In practice this works well if the administrators are imbued with the democratic spirit and if the individual members assume intelligent responsibilities in developing policies for the administrators to put into operation efficiently.” [p. 21]

- (c) A.F. Laidlaw. “Co-operatives in the Year 2000: A Paper prepared for the 27th Congress of the International Co-operative Alliance, Moscow, October 1980.” In *Co-operatives in the Year 2000*. London: ICA, 1980.

“A vital matter for co-operatives that is becoming an almost universal problem and is bound to loom larger all the time is that of size and greater complexity brought on by rapid growth....There is strong reaction in our day against the institutional power and sheer size of big organizations of all kinds, and co-operatives are no exception to this attitude. So, all leaders, and especially boards of directors must be alert to the dangers of alienation brought on by growth and large size....The bond between co-operative and members must not be allowed to weaken just because of growth.” [p. 35]

- (d) Paul Lambert. *Studies in the Social Philosophy of Co-operation*. Manchester: Co-operative Union, Ltd., 1963.

“The essence of democracy is that it makes it possible—and I emphasize the word possible—for an opposition to express itself and take shape at any time. Under the rules of co-operative societies this possibility is always present. For long periods the members may appear to be sunk in apathy, but once a newcomer turns up and starts to make sensible criticism of the management, he soon finds a ready hearing and support.

This is the fundamental Rochdale principle, which is vital to the continued existence of the movement.” [p. 73]

- (e) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“...the co-operative principle of democratic management and control does not imply that all major decisions have to be taken by the members in general meeting nor does it imply that the board members have to manage the affairs of the co-operative enterprise in person. The members may have to use the services of specialists...there is a distinction between the formulation of the policy and its execution.

Hence, the members may delegate all but the key powers (to amend the bylaws, to elect and dismiss office bearers and to decide over the distribution of economic results) to their elected representatives on the board...

In this type of co-operative organization the right of the members to act as supreme authority, i.e. to change the bylaws or to dismiss the board members at any time during a term of office and to elect officer bearers whom they trust, is a potential right. By the

mere fact that these rights exist and can be used whenever this is considered to be necessary by a majority of members in general meetings, some influence is exercised on the decision-making of the board and management.” [pp. 45-6]

- (f) Christopher S. Axworthy. “Consumer Co-operatives and the Rochdale Principles Today.” 15 (1977) *Osgoode Hall L.J.* 137.

“In large co-operatives the problem of democratic control is acute, and with the increase in size comes a commensurate increase in the difficulty of maintaining this essential characteristic. Most active participants in co-operatives would agree that in large co-operative membership meetings do not, or cannot, represent the members. In an association of 5,000 or 10,000 members, the few hundred who actually go to the meetings can represent no one but themselves. It is quite easy to envisage an organized status quo or other minority passing resolutions which the majority of members, were they present, would oppose. Once a resolution is adopted, however, there is little the opposing members can do, for to resign or organize protests will only disrupt the co-operative from which they wish to benefit and which they wish to maintain.

When the co-operative becomes a multi-unit association the meetings become even less representative and are often dominated by members of the unit at which the meeting is held. The need is therefore felt to develop a workable representative system of control of the co-operative so as to ensure that the policies adopted conform to the desires of the majority of members.

A number of provinces have provided for delegate-voting....

Most [Canadian] jurisdictions preclude proxy voting unless the Act or the by-laws of the co-operative provide for it....

Plurality of share types would appear to have no place in co-operative associations, and yet [Canadian] statutory provisions permitting the issuance of more than one class of shares can be found....The concern to keep associations democratic is, of course, quite alien to normal business corporations....” [pp. 149-151]

- (g) Paul Lambert. *Studies in the Social Philosophy of Co-operation*. Manchester: Co-operative Union Ltd., 1963.

“In Co-operation, as in politics, democracy is not ruled out by the existence of indirect democracy. As the co-operative societies amalgamated it became more and more difficult and often impossible for all the members to meet in a single hall. In many co-operatives there is now a second tier of meeting made up of delegates from the primary meetings. Sometimes this second tier of meetings elects delegates to an even higher level, e.g. in order to form the management committee of a wholesale society or a specialized society such as an insurance.

Societies which thus apply democracy at two removes and, in general, federations of co-operatives, come up against a good many difficulties in allocating voting power at their meetings....[T]here are objections to allocating voting power strictly in proportion to membership, the most weighty of which is that this practice would give an absolute

majority to two or three powerful co-operatives or, indeed, to only one of them....This becomes particularly important whenever a specialized co-operative has a membership consisting partly of individuals and partly of societies or groups....[I]n such a case an individual member with only one vote would feel completely helpless if he had sitting next to him at the general meeting a delegate who could cast thousands of votes.

In practices, voting power in federations of co-operatives is based either on the turnover of each society with the federation...or on each society's holding of capital....In the latter case the number of votes that can be cast by any society is limited...or, alternatively, it does not increase in step with the increase in the holding of shares....[T]hese federations are genuine co-operatives, because they are composed of, and dominated by, societies based on the principle 'one man, one vote.'" [p. 70]

(h) George Melnyk. *The Search for Community: From Utopia to a Co-operative Society*. Montréal: Black Rose Books, 1985.

"First, there is the increasing importance and dominance of second and third tier co-op institutions, which have no human members. Alex Laidlaw commented on this in the mid-Seventies when he pointed out that 'tens of thousands of co-operative members in Canada are served directly by a third-level organization for which they are twice removed in respect of control.' Second, there is the ever-increasing size of Canadian co-ops themselves. Continued consolidation and centralization has meant bigger and bigger institutions with the alienation which size creates. In 1982 *Patterns and Trends* made the observation that the average credit union membership stood at 2,000 with only 10 roles for active members or a ratio of 1 to 200....

When participation is limited, the nature of co-operative democracy changes. Since the main concern of large commercial co-operative organizations is their interaction and relationship with the total economic environment, that is, market share, their interest in the democratic process is limited...

Of course, the system regrets the lack of commitment and continues to agonize over the problem, but it is unable to move out of the systems phase. The lack of ideological commitment among members is part and parcel of the systems phase." [pp. 116-118]

(i) Finn Aage Ekelund. *The Property of the Common: Justifying Co-operative Activity*. Centre for the Study of Co-operatives Occasional Paper Series, #87-02. Saskatoon: C.S.C., 1987.

"Melnyk states about liberal democratic co-ops and their 'emphasis on private property' that their 'tolerance of capitalism was a necessity that turned into a virtue'....[T]o criticize liberal democratic co-operators for not changing the system, if in fact they have little choice in the matter, is simply unattractive moralism....And socialism, though less than communalism, is losing out in the battle for the hearts and minds of the populations of these societies. ...In the tradition of North American radicalism, one must appeal to the accepted norms of society...." [pp. 10-11]

“Democracy, in the case of co-operatives, is of a particular kind. By adopting the principle of ‘one member, one vote’, and by subjecting a fairly large area of management and directors’ decision-making to democratic ratification, the model of democracy approximates that which has been called *participatory*. This model ensures wide opportunities for public debate and public formulation of goals and norms to be pursued by the co-operative. Such a model of democracy also ensures the reality of joint responsibility for the actions undertaken by the co-operative; the common property right, as was the original liberal private right, is tied to individual responsibility for, and interest in, the fate of the common enterprise. The democratic constitution, moreover, completes the joining of instrumental economic and communicative inter-personal action which is facilitated by the norms and principles of open membership. Co-operatives, especially unifunctional ones, are typically economic enterprises. The decisions have to be taken in accordance with tenets of economic efficiency.” [p. 40]

- (j) Friedrich Furstenberg. “Problems of Member Participation at Different Stages of Co-operative Development.” In Eberhard Dugler and Walter Hamm. *Co-operatives in the Clash Between Member Participation, Organizational Development and Bureaucratic Tendencies: A Complete Guide to the Creation, Promotion and Supervision of Societies*. London: Quiller, 1985.

“The multi-tiered organizational structure...created a progressive functional differentiation and distribution of power, that in turn led to an essential change in member roles. Even in the co-operatives there was a transition from ‘association’ to ‘company’ with its concomitant effects on the range and possibilities of member participation. Small solidarity groups have grown into powerful economic syndicates. The original patterns of democratic membership continue to hold good, but they are now interpreted strategically by co-operative management groups according to the demands of the economic situation.... In most countries with successful co-operative development this phase has—at least partially—already been reached. It is characterized by growing tensions between increasing organizational efficiency and stagnating, if not diminishing, member integration. The indicators of this are the visits to, and conduct of, the general meeting.” [p. 110]

- (k) J.E. Trevena. *Purposeful Democracy for Co-operatives*. Working Papers, v. 1, no. 4. Saskatoon: Co-operative College of Canada, 1983.

“It is obvious that co-operatives, especially their leaders, must abandon the idea that an annual meeting suffices to serve all the needs for effective democracy... Low attendance at annual meetings is a common concern among co-operative societies. In very large societies, however, a concern of another kind would arise if, for some reason, all of their members decided to attend the annual meeting... [G]eneral meetings are likely to be poorly attended, and thus only a small proportion of the membership become involved in exerting that influence. To rectify this condition, and to obtain the influence of greater numbers, the traditional concepts of democratic practice must be broadened

through the adoption of techniques...that will enable members to express their wants, needs, expectations and views. Information, suggestions, or views expressed by members through the use of questionnaire forms, interviews, random opinion sampling, telephone calls and other means must be regarded as being as useful and valid as that derived through voting at a meeting...." [pp. 15-16]

- (l) J.G. Craig. "Business Success and Democratic Process." In *Co-operatives Today (Selected from Various Fields of Co-operative Activities)*. Geneva: ICA, 1986.

"Members also want their co-operatives to be responsive to their needs... Co-operatives have built in an influence and control process around the general principle of democratic control....This reversing pattern of information flow is inherent in co-operatives....

The Saskatchewan Wheat Pool (SWP) is the largest co-operative in Canada....It is one of Canada's largest corporations....By any standard it is a very successful business.

The SWP also has a rather unique democratic structure....SWP has 6,000 to 7,000 farmers in elected positions on an annual basis. The majority of Saskatchewan farmers have been Wheat Pool Committee Members at one time or another.

A study in the early seventies found that the democratic process provides a forum for a wide cross-section of farmers' views and that delegates are very sensitive to the changing views of farmers. If they are not in touch, they can be defeated in the fall election." [pp. 93-97]

- (m) Baldur R. Johnson. "Co-operative Participation and Communications." In Baldur R. Johnson and Mark Goldblatt. *Views on the Co-operative Movement*. Working Papers, v. 5, no. 1. Saskatoon: Co-operative College of Canada, 1987.

"- Policy making is the responsibility not only of directors, but of all stakeholders in a co-operative.

- Effective participation by all interested parties should ensure that policies, and hence operations, reflect the needs of the members. This requires participation by members as well as directors. The key to effective participation is communications....

- For a co-operative to have committed members, it must have members with some degree of obligation to it. Without a meaningful investment the member has no incentive to protect the organization and can behave irresponsibly towards it without risking any personal loss.

- The Saskatchewan Wheat Pool, the Alberta and Saskatchewan Credit Union Centrals, and the Calgary Co-operative Association have experimented with systems of member participation. All are effective to the degree that they bring the interests of ordinary members home to the board of directors.

- Improving communications was seen as a major challenge facing co-operative management in the 1970s, and it remains the major challenge today...." [pp. 19-20]

- (n) Chapman et al. *The Contemporary Director: A handbook for elected officials of co-operatives, credit unions and other organizations*. Saskatoon: Co-operative College of Canada, 1986.

“Communication, in terms of both providing information to members and receiving input from members, is crucial to the success of a co-operative organization. The loyalty and commitment of members cannot be taken for granted; it must be earned through appropriate communication and other activities. The board has a key responsibility, as the elected representatives of the members, to ensure effective two-way communication and other activities that support member relation objectives...Financial decision making is central to the trustee function of the co-operative board of directors. Although profitability does not stand out above all other measure of success for co-operatives, efficiency and protection of assets are major concerns....” [pp. 240-1]

- (o) Co-operative Future Directions Project. *Patterns and Trends in Canadian Co-operative Development*. Saskatoon: Co-operative College of Canada, 1982.

“One of the ironies of co-operatives is that their continued success often depends on management ability far in the excess of the native abilities of its members or the resources of their community. Thus we have the professional manager....Although the line between board authority and management authority is never as clear as theory suggests, it is easier for a board to maintain that line with a professional manager....” [p. 113]

- (p) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“For a long period of time the element ‘co-operative enterprise’ has been misinterpreted by many co-operators. Traditional co-operators tried to distinguish co-operative services from commercial business transactions not only as to objectives but also as to technical performance, claiming that the methods of modern management as applied by professional managers were incompatible with democratic administration and control in cooperative societies....This attitude, however, does not take into account that a co-operative enterprise has to carry out economic functions which are similar to those of private firms and that only part of the business of a cooperative enterprise is transacted with the member-units under special conditions of member promotion, while many other business transactions take place between the cooperative enterprise and private firms or government agencies such as Marketing Boards under normal market conditions; furthermore, in business transactions with members and other partners the co-operative enterprise like any commercial firm should make every effort to reduce overhead costs and risks to a minimum....

...Today, the fact that business transactions carried out by co-operative enterprises on behalf of and for the benefit of their members have to be performed in more or less the same way as business transactions of private firms and that the general principles of

business administration and management are just as relevant for the economic efficiency of a co-operative enterprise as they are for the economic efficiency of private enterprises is firmly established by co-operative research-workers and more accepted by modern co-operators.” [pp. 41-2]

“Co-operative democracy does not and cannot mean inefficiency and mismanagement...in the words of the ICA Commission of Co-operative Principles, ‘refinements in the forms and machinery of administration are not...to be regarded as a departure from democratic principle’.” [p. 47]

“Accordingly, direct participation in democratic management may have to be changed into indirect democratic control.” [p. 106]

(q) Chapman et al. *The Contemporary Director: A handbook for elected officials of co-operatives, credit unions and other organizations*. Saskatoon: Co-operative College of Canada, 1986.

“In larger co-operative organizations, the attitudes, behaviour and actions of the board provide a model for the general manager to emulate.” [p. 31]

“The board of directors hires a manager to oversee the operations within policies established by the board to achieve goals which move the co-operative toward its objectives. The board delegates some of its authority to the manager so that he or she may do the job. On a day-to-day basis, the manager is a key leader....Co-operatives are unique and their criteria for success differs from other types of business corporations. Co-operatives must recognize the primacy of members’ needs, as success is based on members service and not simply net profit. Naturally, co-operatives need sound financial performance to survive, but this is best achieved through meeting members’ needs....”[pp. 141-2]

(r) Daniel Ish. *The Law of Canadian Co-operatives*. Toronto: Carswell Company Ltd., 1981.

“The question that arises is whether directors actually manage the affairs of a co-operative or, if they do manage, to what degree they do. The size of a co-operative, like that of any other organization, has a dramatic effect on control of the organization. There is a view, supported by studies and actual events, that boards of directors in large corporations composed of internal and external directors exercise very little management discretion. A co-operative board is in effect composed of virtually all outside directors in that the directors are not the professional managers of the organization, thus some of the knowledge gained with regard to the functioning of outside directors in ordinary business corporations may be applicable to co-operatives.

One writer has stated that:

It may still be true that the directors of a close corporation actually manage the corporation's affairs, but there is considerable evidence to show that it no longer applies to the large publicly-held corporation which has a mixed board of internal and outside directors. There is serious doubt whether such a board even exercises effective supervisory powers. According to one recent American study, these boards fulfill largely an advisory role and only exceptionally, in the case of a crisis, are they likely to intervene actively in the management of the corporation.

It is likely that a study of boards of directors of the larger Canadian co-operatives would lead to similar conclusions. Such results, however, should not be surprising given the complexity and diversity of the business both of large modern co-operative corporations and of ordinary business corporations." [pp. 82-83]

Appendix C

Co-operatives and Capital Formation

- (a) International Co-operative Alliance. *Report of the I.C.A. Commission on Cooperative Principles*. London: ICA, 1966.

“The capital structures of the different national Co-operative Movements are not uniform. Three main categories may be distinguished in most of them, but in proportions which may vary widely from country to country and from one branch of the Movement to another. These are: the members’ share capital; capital owned by the societies in the form of reserves and special funds on which the individual members have no claim; loan capital, which includes all external borrowing, as may be from banks or governments or other co-operative institutions, as well as all kinds of loans made or savings deposited by members over and above their share-holdings. Of these three categories, no interest is payable by the society on the second, although it may calculate interest for the purposes of its internal accounting. On the third, the interest rates are not likely to exceed the rates prevailing in the external money and capital markets or fixed by authority in a centrally-planned economy for equivalent kinds of investment.” [p. 22]

- (b) K.K. Saxena. *Evolution of Co-operative Thought*. Bombay: Somaiya Publications, 1974.

“Since the Rochdale, when the cooperatives were entirely self-financed from members’ shares, savings, deposits, reserves, etc., a change has taken place as self-financing tends to become even difficult, if not impossible. The ICA Commission report adds: ‘the time may even come when, under the stress of competition and the urgent need to extend their structures and renew their equipment, the national movements will be unable to finance their operations without attracting capital from outside.’” [p. 69]

- (c) G. Davidovic. *Towards a Co-operative World: Economically, Socially, Politically*. Antigonish: Coady International Institute, 1967.

“Capitalism came into being with the introduction of profit as the supreme regulator of economic relationships. Co-operation, for its part, will become a reality when profit will be replaced by earned income as the supreme regulator in the economy.

What is called ‘capital’ will not disappear....From the beneficiary of all economic activities, it will become an instrument in the hands of the people and will work for a ‘wage’, at a fixed rate of interest....” [p. 141]

- (d) A.F. Laidlaw. "Co-operatives in the Year 2000: A Paper prepared for the 27th Congress of the International Co-operative Alliance, Moscow, October 1980." In *Co-operatives in the Year 2000*. London: ICA, 1980.

"Where will the necessary capital come from?"

- In the long run, from the members themselves. People who use the services of a co-operative without helping to finance it are only a burden to the association...
- A strong system of thrift and credit is an essential foundation for all co-operative development...
- As long as interest rates remain excessively high, co-operatives that employ a great deal of borrowed capital will be at a serious disadvantage.
- Every system of co-operatives should be structurally affiliated to a system of co-operative credit and banking.
- Co-operatives that have an automatic method of capital formation built into their operation, in preference to accumulating capital from profits, will have a great advantage in the future." [p. 69]

- (e) Christopher S. Axworthy. "Consumer Co-operatives and the Rochdale Principles Today" 15 (1977) *Osgoode Hall L.J.* 137.

"The need for capital in co-operatives is a constant problem, and, of course, the low rate on shares does not encourage its acquisition. Democratic control is also an important reason for lack of capital from investors who wish considerable control in the business receiving their investment. The low return and non-increase in votes mean that only persons dedicated to co-operative principles will be likely to invest in co-operatives....

In traditional co-operatives the capital investment is often ridiculously small....The highest capital requirements of [Canadian] co-operatives would appear to be \$200 to \$250."

- (f) Christopher S. Axworthy. "Credit Unions in Canada: The Dilemma of Success." 31 (1981) *University of Toronto Law Journal* 72.

"The real point, however, is to prevent capital from exploiting labour... The notion that the interest rate should be low is not supported by theory or philosophy, and equally it is refuted by the facts, for the interest rates payable by the Pioneers were by no means low... Interest is and must be limited and this serves as a critical aspect of comparison with, and differentiation from, conventional and commercial organizations. It does not follow, however, that the interest rate must be low. All economic activity needs capital, and, as the Pioneers recognized, interest on capital should be sufficient to encourage investment and not so low as to discourage it." [pp. 81-2]

- (g) Christopher S. Axworthy. "The Challenge of Co-operative Capital Formation." In Christopher S. Axworthy and Terry Phalen. *Co-operative Growth and Survival: Two Viewpoints*. Working Papers, v.4, no. 5. Saskatoon: Co-operative College of Canada, 1986.

"The Task Force emphasized the need to 'develop investment instruments that meet the unique requirements of the co-operative sector'....

Loans from members, whether in the form of patronage rebates withheld, or separate from patronage rebates, should constitute the main loan equity interest in co-operatives. This may, however, give rise to great difficulties for co-operatives....

The Rochdale Principles limit co-operatives to capital which excludes the surplus value from the enterprise, and which does not infringe upon the application of one member-one vote principles....Capital investment in co-operatives should not be for those who want a say in the running of the operation...or who want to receive more than the market rate for the capital they invest. This limits the pool of potential investors to those who believe in co-operation....

These avenues or sources are:

1. Employees of co-operatives;
2. Co-operative venture capital funds; and
3. Greater co-operation among co-operatives." [pp. 17-20]

- (h) Christopher S. Axworthy. "Capital Accumulation in Co-operatives and Credit Unions." In Murray Fulton and Aina Kagis, eds. *Capital Formation in Co-operatives: Social and Economic Considerations: Selected Papers from the 1988 Meetings of CASC*. Saskatoon: Centre for the Study of Co-operatives, 1988.

"First, co-operatives and credit unions should not try to emulate capitalist businesses in their efforts to raise capital for their institutions; they should not issue shares to which capitalist rights to speculation, to surplus profits, to a share of the assets on distribution and to voting based on wealth... Second, ...some programmes to encourage increased member investment have proven to be successful... In summary, there would appear to be no reason to give up on the traditional co-operative way of raising capital. What appears would be desirable is a return to the accentuation of the co-operative difference, to traditional co-operative values of member, staff and public education and to co-operatives and credit unions working with their members in a vigorous and professional manner." [pp. 194-5]

- (i) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

"Share capital as a source of finance usually is not sufficient, because, as a rule, persons who join cooperative societies are those who look for promotion rather than having money to spare. Furthermore, the internal structure of cooperative societies as associations of persons allows every member to enjoy full membership rights after having

contributed the minimum amount of share capital, so that there is a tendency to pay-in the smallest possible amount.

Unlike joint stock companies which can sell shares to the general public, for co-operative societies the number of prospective members and shareholders is limited to those persons who can make appropriate use of the services of the co-operative enterprise ... the capital contribution is linked to membership which in turn is variable and accordingly the share capital is variable too...

In cooperatives the reserve fund is the stable part of the owned capital and a necessary counterbalance to the variable share capital.” [pp. 91-2]

(j) Paul Lambert. *Studies in the Social Philosophy of Co-operation*. Manchester: Co-operative Union Ltd., 1963.

“Just like socialist theory in its early days, co-operative theory bases itself on the individual (instead of on capital) in its attitude towards authority and the distribution of the surplus; authority derives from the principle ‘one man, one vote’, while the distribution of the surplus gives each member a share proportion to the part he has played in the work of the co-operative....Thus the link between the two principles [democracy and dividend] is their common emphasis on the individual.” [p. 75]

“There is no binding Rochdale principle which states that interest must be paid on capital. A co-operative is perfectly genuine if it treats each member's capital holding as a contribution on which no interest is payable....But the Rochdale Pioneers were practical men, and with their instinctive feeling for the workable solution they decided to pay interest on capital....

As long as Co-operation functions in a society where loans must be paid for, it is inevitable that the movement should pay fixed interest on its capital. Co-operators should simply leave it at that, and there is no need to hunt around for other arguments....

...Co-operatives do not pay interest on capital out of any sense of fairness or in order to encourage savings, but solely out of necessity?” [pp. 76-7]

(k) Jacques Carrier. “Capitalization of Co-operatives.” Annual Conference of the National Association of Administrators of Co-operative Legislation, Quebec, June 1988.

“[I]f a co-operative requires venture capital over and above the qualifying shares, it may issue preferred shares which may bear interest at a rate stipulated by by-law. Since investing in preferred shares is not compulsory, the amount so invested may vary from one member to another and it is therefore only right that each receive a return on his investment. Preferred shares may also be issued to non-members, subject to compliance with the disclosure requirements....In such cases, the co-operative may attach benefits (except voting rights) to these shares to make them competitive with other financial products....

[T]he capital that a member must invest in his co-operative is a condition imposed on him so that he may be entitled to the user benefits offered by his co-operative. This condition stems from the fact that, since a cooperative is a business enterprise, it needs capital. As owners, the members must supply that capital. There is consequently no speculative intention associated with the members' investment of capital in their co-operative." [p. 6-7]

- (l) Co-operative Future Directions Project. *Patterns and Trends in Canadian Co-operative Development*. Saskatoon: Co-operative College of Canada, 1982.

"Co-operatives across Canada face a crisis in equity capital. Members are not investing heavily in their organizations, are withdrawing equity when they retire, and are unwilling to keep money in revolving accounts. In part, this is a reaction to high inflation. Members are urging the payment of competitive interest rates on retained earnings and other money invested in their organizations. These factors, combined with high interest rates on debt capital, put a severe strain on financial resources and limit the growth and expansion of services by agricultural co-operatives. The net effect has been to limit the source of long-term capital almost exclusively to trading members. Co-operative surpluses are the source of most member equity. Co-operatives need to address this issue by new and imaginative approaches consistent with their co-operativeness." [p. 48]

"International trade in agricultural products is dominated by a few very large firms. To compete, co-operatives need to develop manufacturing and transportation facilities, and this is often done through subsidiary companies which, to be market forces, are run more like their competitors than like their parent co-operatives. This strains co-operative credibility even among members who benefit from this approach and blurs the distinctiveness of co-operatives. There is no doubt that agricultural co-operatives need to grow and to integrate vertically and that subsidiaries are a logical means." [p. 47]

- (m) J.G. Craig and F. Carden. *Co-operatives in Canada: Focus for the 1980s*. Working Papers, v. 4, no. 3. Saskatoon: Co-operative College of Canada, 1986.

"In the 1980s, several large co-operatives in Canada have had severe problems. United Co-operatives of Ontario, Western Co-operative Fertilizers, Arctic Co-operatives Limited, B.C. Central Credit Union, Credit Union Central of Alberta, Co-operative Trust Company of Canada, Credit Union Central of Ontario, CSP Foods Ltd. and the United Maritime Fisherman - these organizations have scaled back operations; most now seem to be out of the woods and on the road to recovery. It is significant that all the above received assistance from other co-operatives in order to survive....

High inflation and financial losses have decreased the amount of member equity in most of the co-operative system." [p. 12-14]

- (n) J. Arthur LeBlanc. "Capital Formation in Co-operatives: Social and Economic Consideration." In *Capital Formation in Co-operatives: Social and Economic: Selected Papers from the 1988 Meetings of CASC*. Saskatoon: Centre for the Study of Co-operatives, 1988.

"Some may suggest that we adopt some of the approaches used by the private sector to raise equity....I quote briefly [from *U.S. Marketing*, "Why Co-ops Need Extra Seed Money"]:

Co-ops such as Ocean Spray represent an unusual bright spot on the troubled landscape of U.S. Agriculture....There's irony in their success however; despite their rapid growth, many co-ops are thinly capitalized, and their member farmers are often reluctant to fund ever-increasing marketing and development cost. To raise the capital necessary to deep growing, many of the top 50 co-ops are contemplating a daring step of selling shares to the public....But for some co-ops, the notion of going public is heresy. The question is whether co-operatives should start harvesting cash on Wall Street.

There may be need to go outside of the co-operatives' membership structure to raise capital, but must we go beyond the co-operative sector? A quick assessment of the availability of funds would seem to indicate that there is adequate funding to meet the present needs of co-operatives and for their future development. More monies seem to be invested by the co-op sector in the private and public sector that the private and public sectors have invested in the co-operatives. Why should this prevail while co-operatives are struggling with the issue of capital formation? Is it that the risk of investing in co-operatives is greater? Is it a lack of confidence in co-operatives' ability to compete effectively and generate the earnings necessary to make such investments rewarding? If that should be the case, is it not time that we should assess the whole co-operative approach, not only the problem of capital formation?" [pp. 90-1]

"Capital is not the 'motive force' in co-operatives, but it is very essential 'lubricant' in their operations and development. We must have it in sufficient amount. We must use it effectively. How do we achieve that?" [p. 93]

- (o) Canadian Co-operative Association. *1991 Annual Meeting Delegates' Handbook*. Ottawa: CCA, 1991. Resolution on Capital Formation in Co-operatives (Passed by the CCA 1989 Annual Meeting, September 14, 1989).

BE IT RESOLVED that the Canadian Co-operative Association adopt the following policy directions related to capital formation in co-optatives:

1. Responsibility Of Membership

The responsibility of members to participate meaningfully in the capitalization of their co-operative should be recognized. Members' initial and on-going investment in their co-operative should be significant, not nominal. Within each co-operative, mechanisms should be put into place to facilitate significant initial investment by new members, and to maintain a more direct relationship between ongoing use and investment. Levels of investment and

the measures required to implement investment programs are matters for the co-operative and its members to decide, but should be considered on a system basis where the opportunity exists.

2. Education Re Member Investment

Co-operative education should stress members' investment in their co-operatives. Members who understand the responsibilities, risks, and opportunities of investment in their co-operative will be more committed to it, and more willing to capitalize it. The education of elected leaders, management and staff will also contribute to member commitment and willingness to invest. Implementation of these education programs may be most effective if handled by sectoral, second tier or regional co-operative organizations.

3. Democratic Control

The basis of democratic control in primary tier co-operatives must be one member, one vote. Individual co-operative organizations, however, could allow for classes of members (for example, active and associate, or different types of stakeholders, including employees) to accommodate their decisions on the appropriate relationship between use and control in their organization. Rights of control should be defined by membership status, not directly by investment. A minimum standard of use could be required to qualify for membership. At the second and third tiers, democratic control should continue to be adapted to recognize such considerations as usage (e.g. equity investment, patronage, etc.) and the number of members in primary co-operatives.

4. Types Of Capital

Co-operative capital should be comprised of four types, the characteristics or which should be as follows:

- a) Mandatory member capital is the initial or on-going, at-risk investment required as a condition of membership. It should remain at par value. On the decision of the co-operative, it may be either redeemable or transferable, and in either case, subject to terms and conditions set by the co-operative. The return on it should be fair. Where there is no non-member business, and where all members contribute equitably to the co-operative, members may decide to strictly limit the return, or pay none at all. It should be recognized that required levels of mandatory member capital will vary with circumstances and according to the type of co-operative.
- b) Voluntary capital is the at-risk capital invested by members, over and above their mandatory investments. Voluntary capital may also be invested by non-members. Subject to policies established by the co-operative, it may be redeemable or permanent and transferable, valued at par or no-par, and in receipt of a competitive return. It shall not be linked directly to control,

although contributors should be allowed some influence through provisions such as subsidiaries or holding companies, where appropriate. Transferability may require a secondary market. Means by which the co-operative could control the secondary market mechanism should be explored.

- c) Allocated member capital is the portion of a co-operative's surplus that is distributed to each member in the form of (at risk) shares or member loans. As decided by individual co-operatives, it may be similar in character to either mandatory member or voluntary capital. When the amount or value of a member's allocated capital exceeds any level set by the co-operative, however, the excess should have the characteristics of voluntary capital.
- d) Reserves and unallocated or retained earnings comprise the fourth type of co-operative capital.

These four types should be recognized in co-operative capital structures, but each co-operative will need to determine the appropriate levels of each, and balance among them.

5. Legislative Initiatives

Co-operatives must speak in a unified voice in their dialogues with governments, in order to bring about legislation affecting co-operative capital that is true to basic co-operative principles, and at the same time, enabling, permissive and flexible. The resulting legislative changes will result in equitable treatment of co-operatives, and should therefore be viewed positively by legislators.

BE IT FURTHER RESOLVED that Canadian Co-operative Association member organizations adopt these broad policy directions within their organizations.

ALSO, BE IT FURTHER RESOLVED that a process be put in place to analyze the impact of these policy directions on a sector by sector basis." [pp. 713-7-15]

- (p) Daniel Ish. *The Law of Canadian Co-operatives*. Toronto: Carswell Company Ltd., 1981.

"Little has to be said with regard to external financing of co-operatives, for in this respect the co-operative parallels the ordinary business corporation. Power exists in all co-operative legislation enabling the organization to borrow money and to secure the same as it sees fit. Thus, a co-operative can seek financing from the traditional sources, and secure it by traditional corporate means." [p. 79]

- (q) Panel of Experts for the Canadian Co-operative Association. "Taking Responsibility for the Future: Co-operatives in the Year 2004." In *Canadian Co-operative*

Association. *Co-operatives Perspectives on the Future*. Executive Summary of 16 Regional Dialogues and one National Forum on "Co-operatives in the Year 2004." Ottawa: CCA, 1991.

Part I: Capital

The Fundamental Question

"How can Co-operatives increase their capital to an adequate level?"

Initially, co-operatives were established by individuals who did not have a lot of capital. They were able to operate successfully with debt-financing because their organizations were labour intensive and requires access to money at reasonable cost. In addition, operational stability requires co-operatives to have reserves that can ensure their existence through periods of economic stress.

The target for 2004 is two fold: Access to an adequate level of capital; and reduction of reliance on debt capital in favour of greater reliance on equity capital.

For many co-operatives, the best method of ensuring an adequate supply of capital is enhanced earnings which can result in a build-up of capital in the form of retained earnings but can also make co-operatives attractive for contributions of additional voluntary capital. A number of questions need to be addressed. They are:

- what means and methods of raising capital currently used by co-operatives can be improved upon?
- what additional means and methods can co-operatives utilize to attract and retain capital?
- do co-operative principles limit the ability to raise capital, and if so, should the principles be changed, rationalized or ignored?

Most of the recommendations in this section require considerable effort over the long term; we have thirteen years to the year 2004.

Recommended Methods of Capital Formation

A. Increased Compulsory Member Equity

The required member equity investment of most co-operatives is low. In many cases, the membership fee or qualifying share is nominally priced (e.g. \$5.00). Co-operatives must consider ways to increase member equity. This can be done through contributions over a period of time rather than an initial substantial investment.

1. It is recommended that all co-operatives develop a plan to increase compulsory member equity without putting strain on member's financial activities.

B. Increased Voluntary Member Investment

Co-operative members' personal savings are a substantial potential source of capital. These savings are often invested in non-co-operative enterprises. The co-operative principle that "share capital should only receive a strictly limited rate of interest, if any," cannot be strictly maintained if co-operatives are to look to their own membership as a source of capital, rather than to chartered banks. When capital is accessed from outside sources, it will not impact the control structure of the co-operative also, we cannot expect members to invest personal savings in co-operatives if the rate of return is not competitive.

2. It is recommended that co-operatives create share and debt instruments which carry competitive rates or return.
3. It is recommended that these instruments carry no voting rights and thus the principle of one member-one vote is preserved.
4. It is recommended that a national exchange be created to enable a secondary market in co-operative shares, bonds, and mortgages.

C. Investments of Financial Co-ops

Financial co-operatives currently invest capital in non-co-operative enterprises. This is done partly because of legislative requirements and partly because of attitude. Efforts must be made to channel co-operative capital into co-operative enterprises. These investment decisions should not be made out of charitable motivations but based upon objective considerations related to risk which are normally taken into account in making investment decisions. These investments could be made through the vehicle of the national market exchange recommended above.

5. It is recommended that financial co-operatives invest their capital where feasible in sound co-operative enterprises.

D. Increase Retained Earnings

Co-operatives must seriously consider increasing retained earnings. This will result in increased income tax but paying income tax up front is preferable to paying large debt costs to the nation's banks. Although patronage dividends that have not been paid out should continue to be an important source of capital, the contingent liability they represent makes them more fragile as a capital source. An equal split of co-operative earnings among patronage dividends, retained earnings and voluntary equity is a desirable goal.

E. Government Financing Programs

There are a number of provincial government capital programs such as venture capital incentives and community bonds. Where possible, co-operatives should consider tapping into these programs. Where these programs exclude co-operatives, strong efforts must be made to convince governments not to discriminate.

7. It is recommended that co-operatives take advantage of the government financing programs that exist.

F. Free Up Existing Capital

Co-operatives have enormous amounts of capital tied up in equipment while financial co-operatives seek vehicles to place capital. The movement toward financial co-operatives becoming lessors of equipment leased to other co-operatives should be pursued vigorously. In many instances, it will be advantageous for co-operatives to lease thus freeing up capital for other purposes. To the extent that the lessors are co-operatives, the earnings of the lessors are kept within the co-operative system.

8. It is recommended that financial co-operatives become lessors of costly equipment to other co-operatives.” [pp. 8-10]

Appendix D

Co-operatives and the Profit Motive

- (a) J.G. Craig. "Business Success and Democratic Process." In *Co-operatives Today (Selected Essays from Various Fields of Co-operative Activities)*. Geneva: ICA, 1986.

"The logic of striving for business success in co-operatives stems from their purpose. A co-operative, or co-operative federation, is created to supply goods and services to its members... There is a variety of measures of economic success in any business. These include long-term profitability, growth, size of assets, market share, or return on capital employed. Co-operatives would add some other dimensions, like economic returns to members, transformation of the market for the benefit of members and helping to improve their quality of life. [p. 93]

- (b) Paul Lambert. *Studies in the Social Philosophy of Co-operation*. Manchester: Co-operative Union Ltd., 1963.

"In Co-operation, power does not depend on either the allocation of the profits or the degree of risk bearing. In a consumer co-operative, to take a simple example, the rules are as follows:

- (1) Power: each member has one vote irrespective of the extent of his purchases or shareholding.
- (2) Distribution of the profits: in proportion to each member's purchases.
- (3) Risk bearing: depends on each person's financial stake.

Thus in each case the unit of measurement is different..." [p. 75]

"Dividends in proportion to transactions give member co-operators a share in the total commercial profits of the nation. In Marxist language they get back a proportion of the surplus value..." [p. 79]

"The members only seek to further their own interest in so far as they consider it consistent with the general interestThis is why they refuse to draw any profits. The co-operative surplus which they share out has accumulated from their own purchases [or participation] and does not therefore constitute a profit....

[T]he main thing about the dividend principle is its negative aspect—the refusal to make any distribution in proportion to the capital invested...in a broader sense it excludes the distribution of any profit." [p. 82-3]

- (c) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“[E]conomic efficiency...is an invariable idea underlying all cooperative action, because the main purpose of association is to promote the economic interest of the members. This can only be done if the association is organized in such a way that a real and efficient economic potential (the cooperative enterprise) is created by joining the economically insignificant potentials of the individual members.

Economic efficiency does not automatically turn the cooperative enterprise into a commercial business firm. Economic efficiency as a cooperative principle has to be seen and measured in relation to member promotion. People join a cooperative society because they hope to achieve better results for themselves by means of association than those they could achieve as individuals or through other forms of organization.” [p. 10]

“Distribution of surplus (economic results) among the members in the form of surplus or dividend on purchases or sales, too, is no longer officially listed as a cooperative principle because it is beyond doubt that societies which do not pay dividend or bonus on transactions with the cooperative enterprise may still be genuine cooperative societies.

The same is true for the payment of interest on share capital.” [pp. 7-8]

“Today, the fact that business transactions carried out by co-operative enterprises on behalf and for the benefit of their members have to be performed in more or less the same way as business transactions of private firms and that the general principles of business administration and management are just as relevant for the economic efficiency of a co-operative enterprise as they are for the economic efficiency of private enterprises is firmly established by co-operative research-workers and is more and more accepted by modern co-operators.” [p. 41-2]

“The distribution of surplus among members in proportion to business done with the cooperative enterprise has proved to be a practice which ensures a fair and just distribution of the gains arising out of the cooperative activities...to repay to the members what they had been charged by the cooperative enterprise in excess of actual costs....This system of distribution of surplus is considered by many authors to be the main distinguishing feature of cooperative enterprises as compared to private firms.

The ICA in the 1969 Congress in Hamburg has changed the term ‘surplus,’ which was used by the ICA Commission on Co-operative Principles in their report, into the term ‘economic results’ and thus contributed to end the old argument whether co-operative societies make surplus or profit.

It has been pointed out...that surplus in co-operatives accrues for reasons that are different from the motives of profit-making in capitalistic enterprise. While privately owned enterprises—as a rule—try to earn as much money as possible...co-operative societies in principle pursue the policy of service near cost in transactions with their members. Therefore any surplus accrued out of transactions with members-customers at the end of a financial year is not the result of efforts to accumulate profit in the co-operative enterprises at the expense of the members-customers who...would then try to make profit out of themselves. It is rather motivated by business prudence....On the other hand, if profit is simply defined as surplus of income over expenditure, then co-operatives definitely try to make profit....

The problem is to distribute the economic results in such a way that there is a proper balance between the interests of the individual members and those of the society as a whole.” [p. 82-4]

(d) W.P. Watkins. *Co-operative Principles Today and Tomorrow*. Manchester: Holyoake Books, 1986.

“It must be borne in mind that the factors which have to be taken into account in distributing equitably the economic benefits of any Co-operative are to a high degree interdependent. Overall net profit depends on the relation between turnover and costs... Revenue from sales is also affected by the price policy ... and the extent to which a system of cash discounts or rebates is practiced. The disposable surplus may on the other hand be swollen by income from investments and dividends on purchases from Co-operative wholesale federations.” [p. 91]

(e) Lord Oram, Chairman, Co-operative Development Agency. “The Principles and Practice of Co-operation in Rural Areas.” Multipurpose Rural Community Co-operatives Seminar. University College of Wales, Aberystwyth, 24-25 September 1979. Papers and Report. The Plunkett Foundation for Co-operative Studies, 1979.

“Communes do not provide a sound and lasting basis for development today any more than did the Owenite villages of the last century. They require a degree of dedication to the common welfare that is admirable while it lasts but which is not a practical instrument for the general economic and social development of a community by ordinary mortals. Ordinary mortals, in my view, are acquisitive as well as co-operative, and for this reason practical co-operative methods need to appeal not just to idealism, although they should certainly do that, but to people's acquisitiveness as well. That after all is what the Rochdale pioneers did.” [p. 5]

“There is nothing immoral, in my view, in the individual acquiring wealth through membership of a co-operative. Indeed that is what the co-operative is largely for. It is not the acquisition of wealth that is immoral in the eyes of co-operators; what *is* unacceptable according to co-operative principles is the acquisition of wealth through the exploitation of others, and the use of capital to exploit workers, consumers, borrowers or tenants. It is this exploitation of one man by another which a co-operative society seeks to eliminate.

...Moreover, since I have said that the second essential co-operative principle upon which development should be based is the equitable sharing of a trading surplus, it follows that any co-operative organisation that is brought into being must have the earning of a surplus or profit as its objective. In other words, we are talking about businesses, and business which are profitable.” [pp. 5-6]

- (f) C.T. Fredrickson (CEO, Farm Credit Banks of St. Louis). “Co-operatives—Hard Times and Hard Realities.” Paper presented to Association of Co-operative Educators, Madison, Wisconsin, June 1986.

“My premise of cooperatives is that they are economic instruments existing and operating to increase the profitability of their owners—nothing more and nothing less. They are not in existence to create or perpetuate any particular industry structure. Neither do they have any particular role to play in promoting or defending social values, movements or structures, however desirable they may be. Cooperatives exist to make money for their owners and any objectives which dilute emphasis on that reason for being are dangerous, by definition.” [p. 3]

“Co-operatives must recognize that they are of value to their owners only as long as they succeed as businesses; that is, only as long as they make profits. If that word is too offensive, pretend I said ‘earnings’, but please understand that I mean *co-operative* profits or savings. Of course, those earnings belong to the patrons, but the co-operative must make them first. Co-operative confusion and ambivalence towards profits or earnings has been allowed to cover a multitude of sins and is a major reason so many co-operatives do not have the opportunity to serve the best producers in their trade areas.” [p. 9]

- (g) Daniel Ish. *The Law of Canadian Co-operatives*. Toronto: Carswell Company Ltd., 1981.

“Although it is commonly said that co-operatives do not possess the speculative or profit-making element that characterizes ordinary business corporations, it must be recognized that they are economic units. They are formed for the purpose of increasing, through the benefits of co-operative association, the economic welfare of their members. These benefits usually manifest themselves in the form of the economies which are coincident with large-scale production, marketing, or purchasing. Thus, it is clearly erroneous to view co-operatives as non-profit organizations. The latter are carried on without the purpose of economic gain for the constituent members of the organization, which is certainly the antithesis of the co-operative venture, although it has been argued that ‘economic gain’ or ‘economic welfare’ must be interpreted broadly to include not only financial savings but quality of product, decency of service, ownership, control, and the satisfaction of self-help.” [p. 3]

Appendix E

Service to Members and Nonmembers

(a) Jacques Kaswan. *Co-operative Democracy*. Unpublished. 1988.

“When the first explicitly cooperative store was established in Rochdale in the mid 19th century, a major motivation of its founders was not just to make a decent living for themselves, but to make quality goods at fair prices available to the community.” [p. 139]

(b) International Co-operative Alliance. *Report of the I.C.A. Commission on Co-operative Principles*. London: ICA, 1967.

“The distinction between members and non-members becomes increasingly difficult to preserve with the necessary clarity under contemporary trading conditions. The stores of the great urban consumers’ societies of the highly developed countries stand open to the general public and in some countries the national Co-operative movement claims sale to the public as a right, or, at least, a condition necessary to the movement’s growth and its effectiveness as a price-regulator....Open membership as a means of keeping the door open to the younger generation and of admitting new elements which may revive democracy in a co-operative where it is becoming effete may nowadays be less effective than formerly, but it still has a certain value....” [p. 15]

(c) Hans-H. Munkner. *Co-operative Principles and Co-operative Law*. Marburg/Lahn, 1974.

“In cooperative societies the owners and the customers of the cooperative enterprise are identical. Only those are entitled to use the services and to share the economic results of the cooperative enterprise, who contribute to the existence and functioning of the cooperative society by assuming the responsibilities and by patronizing the cooperative enterprise.” [p. 13]

“Self-help in the form of cooperative societies can only be successful if members fulfil their double obligation as co-owners and customers of the cooperative enterprise not only during the first period of enthusiasm but continuously over a longer period of time....

[U]nder the law normally transactions with non-members are restricted and business with non-members is allowed only in exceptional cases (eg to recruit new members) or to use idle capacities of the cooperative enterprise.” [pp. 34-35]

“Still another problem in this context is how to dispose of economic results arising out of transactions with non-member-patrons... [other than in specially-legislated

circumstances in some countries] the amounts of bonus credited to non-member-patron accounts are carried to the reserve fund of the society.” [pp. 89-90]

“[T]he cooperative enterprise may need a certain minimum turnover in order to be economically efficient or may have idle capacities which would cause losses, if they were not employed.” [p. 107]

(d) Paul Lambert. *Studies in the Social Philosophy of Co-operation*. Manchester: Co-operative Union Ltd., 1963.

“A co-operative would cease to be genuine if most of its business were done with non-members.

This is inevitable once we accept the principle of democracy and the principles...of the formation and distribution of the co-operative trading surplus. If a consumer co-operative regularly did most of its business with non-members, it would distribute the bulk of the surplus made on these sales to its own members, which would be contrary to the co-operative spirit

Sales to non-members must remain the exception and should chiefly be designed to attract new members.” [p. 66]

(e) Franz C. Helm. *The Economics of Co-operative Enterprise*. Co-operative College of Tanzania, 1968.

“Any co-operative society that extends services, normally given to members, to persons not belonging to the society pursues non-member business. The question whether co-operatives should engage in this line of business has always been controversial, as the primary function of a society is to serve its members, and only persons who are prepared to contribute to the share-capital and carry part of the risk should be entitled to benefit from the society. The degree to which the non-member actually benefits from his transactions with the society depends largely on the price policy of the society. If prices are kept on the local level and the benefits consist of patronage dividends in which non-members do not participate or if the prices are differentiated to the disadvantage of the non-member, his benefits are marginal.

Considering sociological groupings, non-members doing business with the society are aliens. Particularly in a small society with a high degree of integration the non-members will be felt to be disturbing intruders, and this may lead to discontent and tension in the membership. In bigger societies, where close contact among members is not so pronounced, the non-members will scarcely be noticed unless they appear in considerable numbers.

A society that considers allowing non-members’ business should clearly see the advantages and disadvantages of such a move:

- (a) The economic effect: Non-members’ business can have the effect of utilizing empty capacity, or improving the spread of risks, of decreasing cost per unit, and a general increase in productivity.

- (b) The propaganda effect: The non-member has the opportunity to inform himself about the efficiency of the society... In a wider sense, non-member business is often the only way to bring non-members into contact with the actual working of a co-operative organization and is, therefore, often the starting-point of a membership campaign.
- (c) The effect on risk and capital: If the non-member business is left unchecked... the risk for the members grown beyond a reasonable proportion... Similarly, as the growth in business does not correspond to an increase in share-capital, the capital structure of the society will usually change in favour of a higher percentage of borrowed capital. This will not happen if the profit made from non-member business is allocated to the reserves to reduce this trend.
- (d) The commercialization effect: If non-member business assumes a dominating position, the society is in danger of losing its essential co-operative character.

The actual extent of non-member business varies in practice. While it is frequently found in consumers' societies, in agricultural marketing and supply, and in co-operative thrift, it is extremely rare in co-operative housing, in co-operative credit and in productive societies." [pp. 25-7]

- (f) Brett Fairbairn et al. *Co-operatives and Community Development: Economics in Social Perspective*. Saskatoon: Centre for the Study of Co-operatives, 1991.

"The co-operative sector of the economy has long been struggling with making organizational decisions that incorporate both social and economic goals. Co-operatives are unique business enterprises in that 'virtually every co-operative organization [starts] in response to keenly felt social as well as economic needs.' [Citing Eldon Anderson, *Social Audit: A key to excellence*. North American Students of Co-operation, 1983, p.4] Fulfilling the needs of the individuals who form the co-operative—whether these be for consumer goods, for some control over their means of livelihood, or for access to needed services such as day care or affordable housing—are of paramount importance to the success of the co-operative. However, economic efficiency is also vital because it is essential to the survival of the enterprise." [p. 95]

Appendix F
Holdings of Three Canadian Libraries Specializing in Co-operatives,
November 1991

<u>Name of Library</u>	<u>Books</u>	<u>Current Periodicals</u>	<u>Vertical Files</u>
Canadian Co-operative Association Library, Ottawa	4000	120	1000
Co-operative Resource Centre, Centre for the Study of Co-operatives, Saskatoon	1500	67	In Progress
Bibliothèque Patrick Allen, Ecole des Hautes Etudes Commerciales, Montréal	8000	200	None

Source: Information gathered from library staff at each of the institutions, November 1991.

Note: Not all materials included in the collections above are on co-operatives *per se*. On average, about 75 to 80 percent of the materials deal directly with co-operatives. Other materials address issues relating to co-operatives and their roles in society and the economy.

Appendix G

Journals and Newsletters Received, Fall 1991

Centre for the Study of Co-operatives Resource Centre

Total Number: 67

Ace News (Association of Co-operative Educators)
 Annals of Public and Co-operative Economy
 Atlantic Co-operator
 CCA International Affairs Update (Canadian Co-operative Association)
 CCA News
 CCA - Library Services Bulletin
 Canadian Journal of Development Studies
 Canadian Plains Bulletin
 Canadian Review of Social Policy
 Canadian Social Trends - Statistics Canada
 CASC Newsletter (Canadian Association for Studies in Co-operation)
 Central Capsules - Credit Union Central of Manitoba
 Central Notes - Credit Union Central of Alberta
 Centre for community economic development newsletter
 Committee Communicator - Sask. Wheat pool
 Community Development Journal
 Community Economics
 Co-op Net
 Co-op Update
 Co-operative Directions
 Cooperative Grocer
 Cooperative Learning
 Cooperative Link
 Cooperatives et developpement (CIRIEC)
 Credit Union Briefs - Canadian Cooperative Credit Society
 Credit Union Way
 Credit Union World Reporter
 CU Dividends
 Earthkeeping : a quarterly on faith and agriculture
 Employee Ownership
 FOCUS: Newsletter of the Saskatoon Health Services Association
 From the Rooftops - Co-operative Housing Foundation
 Grassroots Development
 Healthsharing - A Canadian women's health quarterly
 ICA News (International Co-operative Alliance)
 IIDC Bulletin (Institute for International Development and Cooperation)
 In Touch
 Info-Coop
 IRPP Newsletter (Institute for Research Policy and Planning)

Institute for Social Research
Institute of Urban Studies newsletter
IRU Courier (International Raiffeisen Union)
Journal of Agricultural Co-operation
Journal of the Community Development Society
La lettre du credit cooperatif
Making Waves
NASCO Newsbriefs (National Assoc. for Students in Co-operation)
NCBA Cooperative Business Journal (National Co-operative Business Assoc.)
One Sky Report
Perception
Policy Options
Pool Today - Sask. Wheat Pool Member Newsletter
Prairie Bookworld
Prairie Forum
President's Newsletter (Federated Co-operatives Ltd.)
Research Register of Studies on Co-operatives in developing countries
Research Reports- Sask. Wheat Pool
Review of International Cooperation
Saskatchewan Business
Saskatchewan Report
Social Development Overview - Canadian council on social development
SSHRC News (Social Sciences and Humanities Research Council)
Together : a co-operative community newsletter
Union Farmer
Vanguard
Western Producer
Worker Co-op Magazine

Appendix H

Introductory Letter to Managers of Co-operatives

September 19, 1991

Dear Sir:

Professor Daniel Ish and I are engaged in a study of multiactive co-operatives in Canada. As part of this study, we are meeting with the Chief Executive Officer of selected co-operatives in each of five regions: Coastal West, Prairie West, Central, Québec, and Maritime.

_____ has been chosen as one of the co-operatives which fit the profile we have chosen for our study. We very much hope you will be in a position to talk with us.

By way of introduction, professor Ish is Director of the Centre for the Study of Co-operatives, Diefenbaker Centre, University of Saskatchewan; author of *The Law of Canadian Co-operatives*; and a member of the Law Faculty of the University of Saskatchewan. I am a member of the Law Faculty of the University of Manitoba, and have collaborated with Dan on co-operatives studies.

The first part of the present study, now complete, is an exploration of the concept of “co-operative” as disclosed in the academic literature. The second part of the study is essentially descriptive, an exploration of business purpose, activity and structure and management experience and philosophy, within the Canadian co-operative context.

We decided to focus on multiactive co-operatives because of their particular complexity and challenge. We define a “multiactive” co-operative as one having a number of business activities more or less closely related to its central business purpose.

Based on the interviews we have completed, we anticipate the meeting would take about 1 1/2 hours. Should you agree to meet, we would appreciate copies of annual reports, public statements of purpose, activity and history, and any related materials you might want to share with us. We feel it is important to the study to meet directly with the Chief Executive Officer of each co-operative.

We would be available to meet with you during the weeks of October 7 [tentative], 14 and 28; and any week in November. As the journey and interview must be co-ordinated with other meetings in your area (and possibly en route), I would very much appreciate a reply by fax early next week.

Please call with any further questions you may have. We look forward to your reply.

Yours sincerely,

Professor Anne McGillivray

Appendix I

Statistical Information on Canadian Co-operatives

Table 1: Co-operative Market Share Estimates¹⁰⁶

Co-operative Market Share Estimates

	1977	1982	1987 ^a	1988 ^a	1989
	– Percent –				
Grains and Oilseeds, West	81	76	72	73	75
Grains and Oilseeds, Ontario	19	21	15	17	18
Fruit		17	19	16	17
Composite for Fruit and Vegetables	10				
Vegetables		9	10	12	11
Dairy Products	51	51	58	57	56
Poultry	32	35	35	32	35
Eggs	9	3	4	4	4
Livestock: Cattle	18	17	18	20	19
Livestock: Hogs	11	13	14	15	12
Fish	10	12	10	9	8
Honey and Maple	23	25	23	26	26

^aRevised

Co-operative Market Share

The Co-operatives Secretariat has made an attempt at estimating the share of various farm products which are marketed through co-operatives. In the case of Western grains and oilseeds, a calculation was possible using available statistics on tonnages. For the other commodities where physical volumes are not as readily available, various data were used, such as producer prices, wholesale prices, handling and processing charges, price spreads, etc. to calculate approximate cost of goods factors. These factors are then applied to co-operative marketings to get an approximation of the values received by the farmers. These values can in turn be applied to farm cash receipts for each product to get rough estimates of the portions handled by co-operatives.

¹⁰⁶ All the information on this page was taken from: Co-operatives Secretariat, *Co-operation in Canada 1989*, Ottawa: The Secretariat, 1991, p. 27.

Table 2: Summary of Co-operatives Reporting in Canada, 1989¹⁰⁷

	West	Ontario	Quebec	Atlantic	Canada	Previous Year ^a
Associations Reporting	– Number –					
Marketing	49	25	14	25	113	124
Consumer	217	18	236	101	572	615
Supply & Mixed	102	32	55	18	207	232
Fishing	30	2	3	26	61	50
Production	265	2	80	48	395	450
Services	1,146	400	1,024	178	2,748	2,585
Total	1,809	479	1,412	396	4,096	4,056
Membership Reported	– Number in Thousands –					
Marketing	266.9	10.5	14.3	6.0	297.8	311.3
Consumer	1,235.2	25.6	334.8	151.0	1,746.6	1,728.3
Supply & Mixed	284.2	86.7	53.0	6.3	430.2	429.1
Fishing	3.4	.1	.3	6.0	9.7	9.6
Production	11.2	.4	4.7	3.9	20.2	21.7
Services	503.7	47.1	172.6	11.0	734.3	717.0
Total	2,304.6	170.4	579.7	184.2	3,238.8	3,217.0
Volume of Business	– Million Dollars –					
Marketing	6,411.6	323.5	1,582.4	405.2	8,722.7	8,405.8
Consumer	1,947.8	92.8	444.5	485.8	2,970.9	2,853.2
Supply & Mixed	777.5	669.9	704.2	27.4	2,179.0	2,066.6
Fishing	72.5	3.1	2.9	106.3	184.8	202.5
Production	183.2	1.1	166.8	22.2	373.3	347.9
Services	503.7	144.4	173.4	29.0	850.5	745.7
Total	9,896.3	1,234.8	3,074.3	1,075.8	15,281.2	14,621.7
Assets						
Marketing	2,183.2	95.0	515.2	127.3	2,920.8	2,706.6
Consumer	715.8	21.8	113.6	123.5	974.7	926.5
Supply & Mixed	321.8	187.3	261.1	11.6	781.8	749.5
Fishing	45.6	.3	3.1	41.8	90.7	97.3
Production	120.1	.5	77.8	3.8	202.3	204.9
Services	1,256.2	742.9	683.2	155.0	2,837.3	2,522.6
Total	4,642.7	1,047.8	1,654.1	463.0	7,807.6	7,207.5

^aRevised

¹⁰⁷ This table is taken from: Co-operatives Secretariat, *Co-operation in Canada 1989*, Ottawa: The Secretariat, 1991, p.4.

**Table 3: Membership in Credit Unions and Caisses Populaires
(December 31, 1989)¹⁰⁸**

Province	Membership (Thousands)	Membership as % of Population
Newfoundland	36.0	6.3
Prince Edward Island	38.0	29.1
Nova Scotia	166.0	18.6
New Brunswick	275.2	38.1
Québec	4,418.0	65.6
Ontario	1,856.4	19.2
Manitoba	349.7	32.1
Saskatchewan	570.7	57.0
Alberta	421.8	17.2
British Columbia	1,022.1	33.0
Canada	9,153.9	34.6

Source: Canadian Co-operative Credit Society (CCCS) 1989 Annual Report

¹⁰⁸ This table is taken from: Co-operatives Secretariat, *Canadian Co-operatives Resource File 1991*, Ottawa: The Secretariat, 1991, p.33.

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