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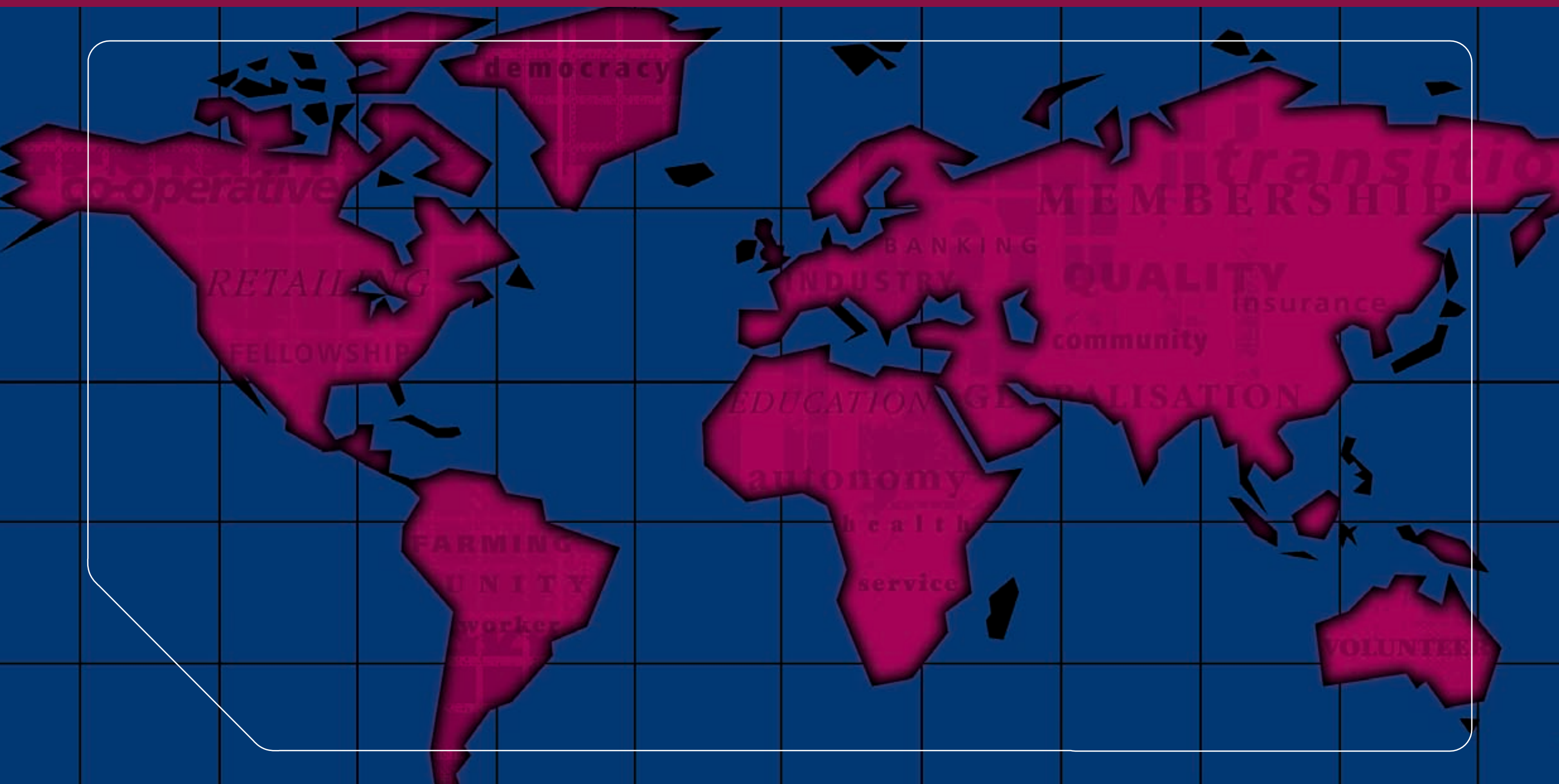

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Editorial

In this our 8th edition of the journal we are delighted to lead with a paper on the strength and stability of the co-operative financial services sector by *Hans Groeneveld* and *Bourke de Vries*. We witness the pitiful failure of any government to protect its citizens from the wholesale exploitation of a financial services sector that is making use of oligopolistic pricing to rebuild balance sheets instead of passing on lower interest rates to their customers. This is particularly disgraceful as many families, are made homeless, workers made redundant and businesses bankrupted who might not have been if the current private sector interest charges were reduced to reflect the low bank rate. What I find sad however is to note that neither the building societies that remain nor the Co-operative Bank have had the courage to lower their interest rates and force the oligopolies to follow suit. Why is the Co-operative Bank charging 8.9% on loans when the bank rate is 0.5%? Has the UK Co-operative Bank always charged 8.4% above the base rate? How does this rate compare with the big commercial banks?

In addition to a special guest paper from Holland we are pleased to welcome papers from Finland, India, and the UK and wish to particularly congratulate the Finish Co-operative Movement celebrating its 110 years anniversary this September. Our Finnish authors *Pasi Tuominen*, *Iiro Jussila* and *Senja Kojonen* present an interesting analysis of a wide range of research approaches to the various forms of governance in consumer co-operatives which they group into two broad categories of market and voice where the former indicates buyer behaviour or customer power as being the focal mechanism and in the latter the rights to information arising from the institutional power of ownership are emphasised. There follows an analysis of the various challenges faced by both approaches.

This literature review forms the background to a very interesting empirical study based in interviews with local member representatives. Here the informal power of the CEO is apparent even to the point of being able to silence the voice of the membership. At the very end of the paper in the conclusions the authors raise the issue of professional consumer marketing as a governance tool. In chapter 6 Stages in the Delivery of World Class Co-operative Quality (WCCQ) in my book published ten years ago in 1999 *Managing the Co-operative Difference. A survey of the application of modern management practices in the co-operative context,* I suggested how the application of Total Quality Management led by genuine customer surveys that are informed by co-operative principles can deliver not only member defined quality standards but an effective performance measure and mechanism for member involvement.

The management power issue is a critical one. Underlying all the models presented in this interesting paper I would argue is a civil service model of governance which precisely pits manager and members as adversary. More research into the recruitment, selection and development of the Co-operative CEO is needed here. We need an acknowledgement that this must be a leadership role but one that is in the servant leader model informed on the basis of clear quality standards determined by members through the use of well established management techniques and strategies.

Richard Knight's paper confronts head on the issue of managerialism but in the context of a small scale community care co-operative. It represents a valuable case study of the micro business co-operative and social economy sector and raises an interesting general question about the viability of the co-operative model for people with limited skills and equally limited commitment to the idea of running a small business when there is no professional management leadership with the commitment to build the co-operative. Again, as in the much larger scale setting of the consumer co-operatives, member's lack of commitment to be involved in the management / governance of their business coupled to a context of managerial indifference to co-operative values can lead to the demutualisation of the co-operative. What is unique in *Richard Knight's* study, however, is that the manager did not privatise the business by taking over into his sole proprietorship but transformed it into a another form of social enterprise. Richard Knight explores the external factors as well as the internal issues that led to this co-operative failure in comparison with other success stories from the same sector and the study makes a useful contribution to that body of research exploring the use of the co-operative model in small worker ownership contexts such as the provision of domestic services for establishing care in the community.

We are indebted to *Prof. S. Rajendran* from India for our fourth refereed paper which presents the findings of three distinct rural co-operative development case studies in the context of a discussion of the factors that encourage people to co-operate. The importance of economic empowerment is clearly demonstrated in the first case study of the women's village co-operative. In the second a dairy co-operative in a drought prone and economically underdeveloped region the key issue was again economic development but through the mechanisms of technical and marketing support services. Readers may find it interesting to compare the much higher levels of member attendance and active participation in all three Indian case studies with that of the Finish consumer co-operative. A detailed reflection on the two papers might give some insights into the contexts that make not just for economic co-operation but also involvement in governance. The third case of a fishing co-operative emerged out of the Tsunami tragedy. Here a self help model became a useful vehicle for the focus and delivery of relief services and post catastrophe support agency services. *Prof Rajendran* concludes with the relatively up-beat view that co-operatives can make a real difference in effective anti poverty programmes in a variety of contexts.

Our fifth refereed paper comes from the United States academy and arises from a seminar paper presented by its two authors *Prof Samuel M. Natale* and *Prof Sebastian A. Sora* who were visiting professors at a Unit for Membership Based Organisations Seminar on "Alternative Approaches to the Economic Crisis" late in our second semester at the University of Leicester. The seminar was also addressed by *Paul Jones* from Liverpool University giving us an update of the latest social responsibility project by the U.K. Co-operative Bank and who made some important points concerning the alternative financial services sector, particularly regarding the combating of poverty. *Paul Jones* is also editor of the UK Society for Co-operative Studies Journal. The paper from Sam and Seb that emerged following a lively discussion is entitled Business, Organisation and the University and includes some hard hitting points concerning the failure of the academy business studies and management development programmes from an American perspective. Their solutions will have I believe a very universal application.

I must say a big thank you for the vigilance of our Publishing Co-operative member based in India, *Sanjay Verma* who has been instrumental in procuring not only the *Prof Rajendran* refereed paper but also two excellent, hard hitting executive reports. One reflecting on Human Resource Management in Indian Co-operatives by *Mr Bagwati Prasad* the former CEO of the Co-operative Union of India. The other on the challenges of climate change for agricultural co-operatives is by the co-directors of the Rural Development and Management Centre based in New Delhi *Dr G C Shrotriya* and *Dr Daman Prakash.* We have a third report from Africa which is a critical look at taxation reform and its impact on co-operatives in Kenya by *Owen Komburi Njenga*. These together with a further research report on the impact of the urban co-operative banks in India that *Sanjay Verma* sent in on the authors behalf ensures that once again India – this most populous and divers region – is well represented in the pages of our journal. We are also lucky to have two other research reports; one a case study of co-operative development in Myanmar by *Gus Poston* and a second research paper by *Dr T. Paranjthi* Secretary of the National Training Institute in New Delhi, and co-authored by *K. Ravichandran*, Vice-Principle Institute of Co-operative Management, Thiruvananthapuram, India reporting on the recent trends and developments and prospects for the urban co-operative banking sector in India. Last but not least we have a study sponsored by the Ethiopian Agricultural Research organisation undertaken by *Dr Nakkiran*, Professor of Co-operatives at Ambo University College, Ambo Ethiopia examining the marketing efficiency of agricultural co-operatives in Ethiopia's West Shoa Zone.

It remains for me to express my thanks to *George Alexopoulos*, *John Donaldson* and *Robby Tulus* for their continuing support for the journal and to give a big thank you on behalf of our co-op members authors and readers to *Mr Kevin Johnson* the CEO of to the Credit Union Development Association in Ireland for their generous sponsorship of the journal.

Peter Davis
September 2009

Mission of the Journal

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

European Co-operative Banks: first lessons of the subprime crisis

Hans Groeneveld and Bouke de Vries[1]

Abstract

The financial crisis and the economic downturn give rise to a number of interesting questions concerning European co-operative banks. How have they fared so far? How much losses have they suffered and how much capital did they write off? Has their presence exerted a stabilising influence on the respective national financial systems? Obviously, it is still too early for clear, final answers to such questions. But we can relate these issues in qualitative terms to the features and business models of co-operative banks. By doing so, this article provides a first analytical impression and survey of the consequences of the crisis for co-operative banks and their influence on the financial systems in which they operate. Secondly, the basic position of co-operative banks in the future global financial order is outlined.[2]

In light of this central question, we will first briefly describe the emergence as well as the bursting of the bubble in the US housing market, and also sketch the outlines of the new global financial system. This is followed, in section 3, by a description of the basic characteristics of co-operative banks in Europe: what are their core values and their brand values? These values offer insights into the approach and strategy pursued by co-operative banks before, during and after the credit crisis. On the basis of qualitative and analytical insights, we formulate a number of hypotheses on the impact of the credit crisis on co-operative banks compared to commercial banks. In section 4, we test these hypotheses quantitatively. The article ends with conclusions and observations.

Key Words

Banking, Co-operatives, Financial Crisis

Introduction

At the time of writing, the credit crisis is still far from over. While a systemic crisis has been averted by draconic measures of national governments and central banks, the future is uncertain. Despite extensive interest rate cuts, liquidity injections, government support and nationalisations the financial markets are still not fully stable. At the same time, the full extent of the real consequences of the credit crisis for the European economies is becoming increasingly clear. Recent figures show that the global economy will experience a deep recession in 2009 and perhaps also 2010.

The financial system before, during and after the financial crisis[3]

The emergence of the bubble

The roots of the most recent credit crisis lie in the United States. Initially, five key factors activated a self-reinforcing mechanism in the financial system (see diagram 1). This took place against a macro-economic background of extensive worldwide imbalances in balances of payments, with the US developing into a major debtor. Low interest rates stimulated lending and raised households' lending capacity. This was boosted by strong economic growth and rising incomes. US house prices increased sharply, and although this decreased the affordability of houses, banks were prepared to provide further credit. This was based on expected continued rises in house prices. At the same time, lending criteria for mortgage loans were eased and more risky mortgage products were introduced. This set of circumstances gave rise to speculation in the US housing market and drove prices up further. Banks were able to continue to finance the accelerating credit growth by partly securitising mortgages immediately, which was stimulated by the prevailing international framework for banking supervision (basically, Basel I). Securitisation generated liquidity for banks and mitigated the pressure of lending on solvency. Securitisation enabled banks to free up a relatively substantial amount of capital to increase the provision of mortgages further.

Owing to the increased risk tolerance and the search for yield among many market participants, the mortgage packages, despite their diminishing quality and increased risks, were in great demand for a long time among investors and banks worldwide. This was partly due to the fact that rating agencies – in hindsight, sometimes wrongly – gave high ratings to certain securitised products backed by mortgages. Investment banks played a major part in issuing the mortgage packages and also fed this 'hunger for

Causes		Consequences
1. Loose monetary policy, particularly in US – Cheap money: low interest rates	}	Enormous rise in house prices Enormous lending volume Enormous underestimation of risk Enormous collective over-optimism
2. Favourable economic conditions – Income growth – Wealth growth – Low unemployment		
3. Easing of lending terms – New products, particularly non-standard mortgages		
4. Financial innovations – Special purpose vehicles – Credit default swaps		
5. Inadequate supervision – Questionable role of rating agencies – Supervisory framework provides incentive for lending and securitisations		

Diagram 1. Five causes of the credit crisis and systemic risks for the global financial sector

securitisation', as it was a highly lucrative business. US supervisors and rating agencies insufficiently recognised the growing discrepancy between the actual and the underlying value of these financial products. This gave rise to a self-reinforcing process, nourished by over-optimism, insufficient pricing of risk and a search for yield in times of low interest rates. In the run-up to the financial crisis, the risks associated with financial transactions were collectively underpriced worldwide.

The bubble bursts

This process of continually rising asset prices was abruptly ended by monetary tightening of the Federal Reserve Bank, which produced the now well-known chain reactions in the financial and economic systems. It started with increasing payment difficulties for households that led to foreclosure sales, which put pressure on house prices. A negative spiral of falling house prices, foreclosures, declining consumer and producer confidence, increasing defaults on credits, write-downs of credit portfolios in the US, worldwide losses and capital shortages at (investment) banks, a stagnating interbank money market and a complete loss of confidence in the financial system ensued (Bordo, 2008). Despite major liquidity support operations and enormous interest rate cuts by central banks and capital injections by governments around and after mid-2007, several banks have failed or had to be bailed out by take-overs or nationalisations all over the world.

The financial crisis also has far-reaching consequences for the real economies. Their weakened capital positions have made many banks appreciably more reticent in providing credits and loans to the private sector. The credit criteria for businesses and households have been tightened worldwide (see chart 2).

At the same time, the recession is causing a sharp fall in the propensity to invest and steeply falling consumer spending. Consumer and producer confidence in Europe has fallen dramatically, as has the demand for consumer durables. The 'blame' for the current sharp economic downturn is often attributed to the malfunctioning of the global financial system, and in particular to the 'greed' of bankers. Accusing fingers are also pointed at failing (mainly but not only American) supervisors. Anyway, the enormous scope of the problems necessitates a far-reaching reform of the global financial system.

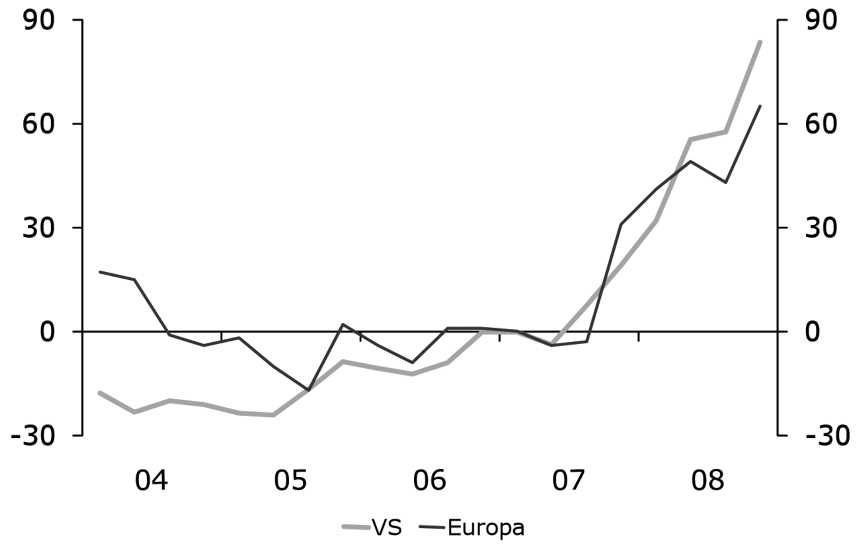
Outlines of a new global system

The crisis has revealed various shortcomings of the financial system and its supervision. The main characteristics of the financial system are likely to change drastically as a consequence. We have pinpointed five major changes on which governments are likely to insist in the near future: a greater focus on integrity and ethics, a healthy risk attitude, the application of a longer term perspective, more transparency and last but not least a greater customer focus. Of course, the financial sector has also performed a critical self assessment and is taking

Box 1 When did the credit crisis start?

It is difficult to pinpoint a starting date for the credit crisis: it was (and is) a chain of events in which one shock in the global financial system follows another. The chart below shows that credit spreads for high-risk European companies jumped around July 2007, according to the iTraxx CrossOver 5Y[4]. Liquidity in the financial system dried up rapidly and many market parties suddenly became aware of the deeply negative effects of the extremely exuberant and risky US credit growth. The beginning of the crisis can accordingly be set at mid-2007. A number of dramatic events followed and led to a steep rise in credit spreads, such as the nationalisation of Fannie May and Freddie Mac, the largest mortgage lenders in the US. The failure of Lehman Brothers in September 2008 was seen as a turning point: no one had expected that a government would actually let a bank of that size fail. The global impact of this event was enormous, confidence crumbled, share prices plummeted and global economic growth slowed. Consequently, risk spreads are likely to remain systematically higher than before the crisis.

Chart 1. Credit spreads for high-risk corporate bonds. Source: Bloomberg and Rabobank.



Source: Bloomberg. This relates to credit conditions for businesses.

Note: net percentage of lenders that have tightened credit terms for companies

Chart 2. Global tightening of lending criteria initiatives to improve its ethics, risk perception and risk attitudes. Accordingly, proposals have been put forward for an adequate structure of executive and employee remuneration in the financial system.[5]

Overall, we expect that greater emphasis will be placed on people and their motives in taking financial decisions, as well as on the social role of banks. Integrity and ethics are central again and the short-term perspective with an exclusive focus on material gains will be much less visible than in the recent past. Until recently, as stated above, subprime mortgages were sold and securitised, which involved high risks that few identified. It is clear now how short-sighted this was.

Both banks, institutional investors and businesses and private individuals must not (any longer) behave like lemmings disregarding the risks of complex financial instruments. In the context of consumer protection, we also expect a number of unsafe, complex and non-transparent financial products to be banned that have been developed in the past few years in the financial sector (although partly on demand by the non-financial sector). The likely outcome will be: '*the return to retail banking*' in the banking sector. Attracting savings to finance loans will become more important than wholesale and investment banking activities, that were major sources of all problems.

All in all, we hope that the four aspects referred to here will contribute to a recovery of confidence in the financial system, which will in turn support financial stability.

Co-operative banks and the financial crisis: the theory

In the global financial system, integrity and ethics will play a more important role at financial institutions than in the past. Traditionally, the financial sector thrives on trust. At the same time, we expect the strong focus on short-term gains and materialism to decrease. In a sense, the 'new' characteristics of the global financial system have been part of co-operative banks' DNA from the start. Certainly, co-operative banks themselves take that view. In the words of the European Association of Co-operative Banks (EACB, 2005):

> *"The primary mission of co-operative banks is to promote the economic interest of their members, who are their customers. Co-operative banks strive to do so by offering quality products and services at attractive prices from the perspective of what is good for the customer. They have an impact presence on the conditions of products in the whole banking market and support the economic and social integration of individuals"*

This concise formulation embodies the roots of co-operative banking. The customer is at the core of their operations and at a local level, members have a say in the local member bank's policy, for instance on the branch location, opening hours and services. An interesting element in the passage above is the comment: co-operative banks have an 'impact presence'. That is hard to demonstrate empirically, as it really only manifests itself on the entry or exit of a large co-operative bank. Through their presence, they exert an influence on the conditions of products throughout the entire banking market. Their stable income and high capitalisation are often said to make a positive contribution to the stability of national financial systems. The present credit crisis offers an ideal opportunity to test such claims.

Interesting hypotheses on the conduct and the relative financial position of co-operative banks in respect of the credit crisis can be derived from the corporate governance structure and the core values and brand values of co-operative banks (see Ferri, 2008). Firstly, owing to their long-term focus on customer value and members' influence, co-operative banks do not aim at short-term profit maximisation. Robust profit growth is also important for co-operative banks to safeguard their continuity and continuing development. Healthy profitability is an important necessary condition, but not an goal in itself.[6] This means that co-operative banks can in challenging times, including the present credit crisis, stay longer behind their customers than their listed rivals. Listed banks tend to pursue profit maximisation for their shareholders as a strategic priority instead and will therefore perhaps more readily ration lending or raise interest rates for loans.

In addition, in line with their origins, co-operative banks operate mainly in local retail markets, which should translate into stronger balance sheets and lower (credit) risks than for other private banks. Their local presence gives co-operative banks easier access to qualitatively good (i.e. stable) sources of funding in the form of (local) savings and deposits. Consequently, the balance sheet ratios on the liabilities side are often more solid than at many private banks. In addition, co-operative banks are literally and figuratively close to their customers and know those customers well through participation in numerous social networks. For the co-operative banking model centres above all on 'relationship banking'.

The well known academic issue of asymmetrical information between the bank and the customer when providing loans may be less pronounced in a co-operative banking system. With their strong local ties and networks, co-operative banks are in theory better equipped to assess the creditworthiness and risks of customers at a local level. The danger of moral hazard and adverse selection would consequently be more limited. If that is true, it can be assumed that – alongside the focus on customer value – this differentiator will be reflected, particularly in unfavourable times, in higher lending to or a longer average life of corporate customers.

On the basis of the above, co-operative banks are expected to have invested less in and/or funded fewer complex, structured financial products than other banks and also to have sold much less of these products to their members/customers. Likewise, they are expected to have been more resilient regarding the use of securitisation, for which only premium grade mortgages would have been eligible in that case. But despite their different orientation, several co-operative banks have also suffered substantial losses. This shows that banks have, in one way or another, been unable to evade the effects of grave deficiencies in the financial system. It also demonstrates the close ties between all banks in a world with free international capital flows.

In sum, co-operative banks should be able to demonstrate their 'impact presence' in financially and economically turbulent times in particular. Owing to their characteristics, structure and financial solidity they can be expected, for instance, to be able to back their customers for longer periods. This would be the result of steering a steady long-term course, which would be reflected in stable profit growth, relatively limited write-offs, low provisions and low losses, a high rating, fewer significant credit risks and a strong capitalisation vis-à-vis commercial banks over a long number of years. Following that line of reasoning, the financial system could well be more stable in countries with a large co-operative banking sector than in countries where co-operative banks do not play a significant role. This would be related not only to a higher degree of capitalisation and a lower risk profile, but also to the existence of collective guarantee schemes to prevent the failure of individual co-operative banks. The next subsection will seek to test these hypotheses empirically.

Co-operative banks and the financial crisis: the practice

Hypotheses can be derived from the business models and characteristics of co-operative banking models on the expected behaviour and the consequences of the presence of co-operative banks in times of financial distress, and therefore also in the current credit crisis. But it is extremely hard to substantiate these hypotheses empirically, particularly due to the scarcity of adequate and consistent data (see also Ferri, 2008). Nonetheless, that is what we will endeavour to do in this section. We will consider the question of how co-operative banks have weathered the credit crisis so far compared to private banks. What is, in view of the structure and market position described above, the impact of the credit crisis on the co-operative banks? We will be looking at the following, in this order: financial performance, actual losses, credit defaults swaps and what is known as the Z scores of co-operative banks. In doing so, we will also consider the influence of co-operative banks on the stability of national financial systems.

Financial performance of co-operative and commercial banks[7]

One of the main findings of the preceding descriptive subsections was that co-operative banks are basically 'different' from commercial, or listed banks. This influences their conduct before, during and after the credit crisis. Below we examine whether these differentiating characteristics are reflected in their financial performance and/or key figures. Four important, interdependent indicators are reviewed:

a. Tier 1 ratio

b. Rating

c. Profitability

d. Efficiency (expenses/income ratio)

a. Tier 1 ratios

Chart 3 shows the Tier 1 ratio for several co-operative banks at year-end 2007, compared to the minimum capital requirement of 8% set by the market.[8] This ratio reflects the amount of equity compared to the risk-weighted assets of a bank. It may be concluded that co-operative banks maintain a comparatively high level of capital.[9] There are a number of explanations for this (see also Oliver Wyman, 2008). Firstly, the high capitalisation is connected with the strong focus of co-operative banks on retail operations. In view of the causes of the financial turbulences, it is strange but true that less stringent capital requirements applied to investment banking until recently than to retail banking. Secondly, co-operative banks add a major portion of their profits to the reserves year after year, and that is above all why they were able to become so large.[10] Thirdly, solid capitalisation is simply necessary for co-operative banks with a view to continuity. For in times of need co-operative banks are less readily able to raise their reserves, as they cannot issue shares.[11]

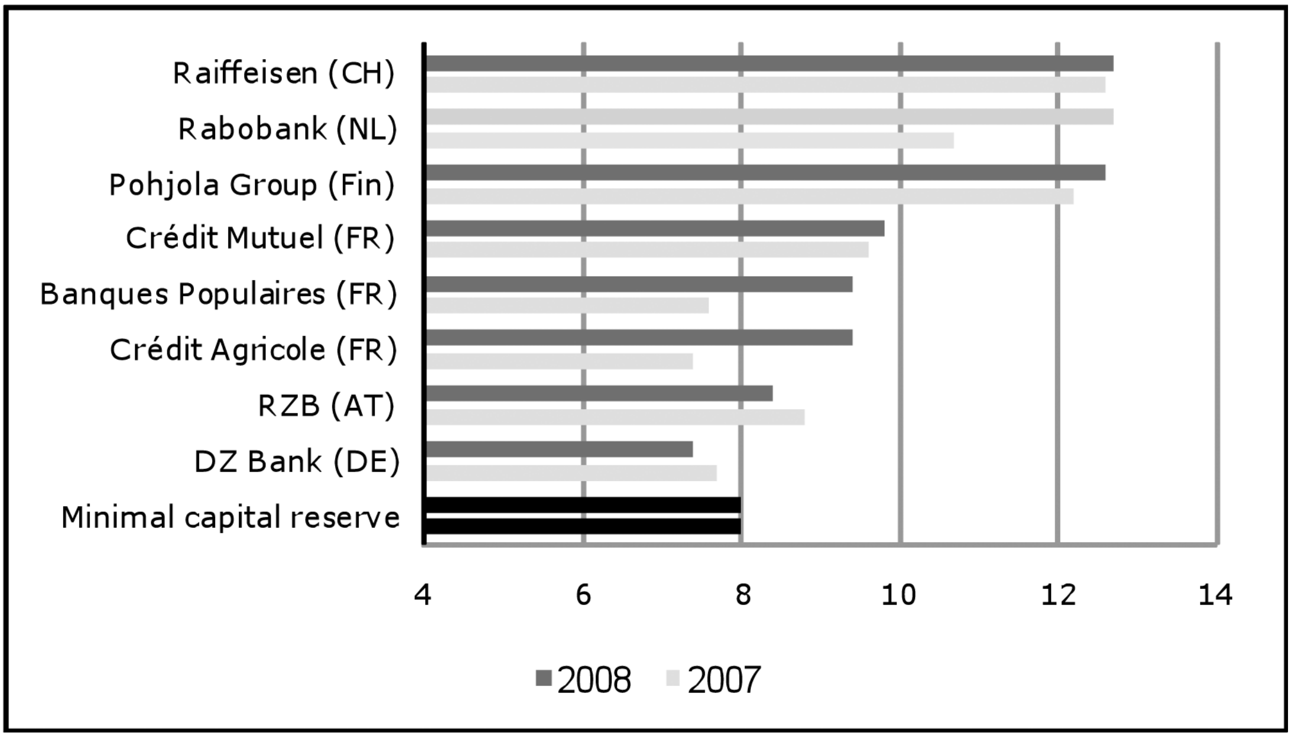


Chart 3. Tier 1 ratio Source: Rabobank calculations

Chart 3 shows that the Tier 1 ratios of most co-operative banks in 2007 and 2008 were comfortably higher than the market's minimum requirement of 8%. In the course of 2008, the Tier 1 ratios of many banks have deteriorated worldwide. Several banks have had to attract extra capital. This chart only illustrates the fact that co-operative banks entered the crisis with a strong capital base and subsequently strengthened their capital position in 2008. It should be noted that the tier 1 capital of DZ Bank shown in the chart is that of the central institution; the capital of the local member banks (Volks- and Raiffeisenbanks) is not included in the consolidation. This would lead to a significantly higher ratio, which is not published however.

The notion that West-European co-operative banks, owing to their strong capital reserves and stable income in fact contribute to the stability of the banking system is increasingly supported by empirical studies. The researchers Hesse and Cihák (2007) of the IMF conclude that the strong capitalisation and the stable income of co-operative banks more than offset the adverse influence of lower profitability on their stability. Overall, in their view, financial co-operatives therefore contribute to the stability of the financial sector.

b. Ratings

Undoubtedly, rating agencies played a questionable role in the hey days of securitisation. Nevertheless, their ratings for banks or other businesses are more reliable than those for securitised US 'mortgage packages' and other derivative financial products such as 'Structured Investment Vehicles'. The banks' ratings reflect the financial health of the entire business and are not constructed at the request of banks. This contrasts with the ratings of the financial products mentioned above, which were requested by the issuer. And the pronounced incentive to give high ratings to these products was actually one of origins of the credit crisis.

The ratings awarded by Fitch, Moody's and Standard & Poor's for co-operative banks are stable and the financial solidity of these banks is still rated as 'good'. Major elements in the rating are: the risk profile, capital buffer, stability of income flows, market shares, strategy and diversification of the activities. At the end of 2008 the rating agencies expected the operating results and the balance sheets of the co-operative banks to remain at a satisfactory level. As a rule, co-operative banks have strong ratings, as shown below.

c. Profitability

The qualitative insights feed the expectation that co-operative banks have below-average profitability, as they target customer value maximisation instead of profit maximisation. Profit is a key enabler, without which the co-operative cannot grow, cannot invest sufficiently. This would provoke members to cancel their membership because its added value would be reduced substantially.

Table 1. Credit ratings of a number of co-operative and commercial banks, April 2009

Bank	Type	Standard & Poor's	Moody's	Fitch
France				
Banques Populaires	co-operative	A+	Aa3	A+
BNP Paribas	commercial	AA	Aa1	AA
Crédit Agricole	co-operative	AA-	Aa1	AA-
Crédit Mutuel	co-operative	A+	Aa3	AA-
Société Générale	commercial	AA-	Aa2	AA-
Germany				
DZ Bank	co-operative	A+	Aa3	A+
Commerzbank	commercial	A	Aa3	A
Deutsche Bank	commercial	A+	Aa1	AA-
Finland				
Pohjola Group	co-operative	AA-	Aa1	AA-
Nordea Bank Finland	commercial	AA-	Aa1	AA-
Netherlands				
Rabobank	co-operative	AAA	Aaa	AA+
Fortis Bank SA/NV	commercial	A	A1	A+
ING Groep	commercial	A+	A1	A+
SNS REAAL	commercial	A-	Baa1	BBB+
Austria				
RZB	co-operative	A	Aa2	n.b.
Erste Group Bank	commercial	A	Aa3	A

Source: Rating agencies Fitch, Moody's and Standard & Poor's. Note: The rating shown for Crédit Agricole, Crédit Mutuel, DZ BANK and RZB is that of the central bank. There is no consolidated rating for all individual local member banks.

Profitability is usually assessed in terms of return on assets and return on equity. Own calculations based on a sample of 45 banks located in Western Europe shows that the return on assets and return on equity at co-operative banks are indeed lower than for commercial banks. The lower return on equity is caused by the lower leverage resulting from a higher core capital ratio for the co-operative banks.

d. Efficiency (cost/income ratio)

Some claim that the absence of a profit objective, or a lower profit requirement, deprives co-operative banks of incentives to operate efficiently. On the income side, this would mean that they set a suboptimal price and that efficiently operating competitors realise a concealed *'excess return'*, i.e. profit on top of the co-operative price. On the cost side, the focus on customer value is said to provide an excuse for looser cost control and not operating efficiently (Van Diepenbeek, 2007).

Benchmarking of expenses and income against the standards in the banking sector is essential in order to examine these aspects (see Van Diepenbeek, 2007). Studies carried out by the rating agency Moody's (2002), the IMF (2007) and Oliver Wyman (2008) show that on average there is little difference between the efficiency of co-operative banks and commercial banks in Europe. In some countries, the co-operative banks in fact operate more efficiently, particularly in Western Europe.

Our own calculations (table 2) bear this out. In addition, in the period from 2002-2007, the co-operative banks in all Western European countries, except France, operated more efficiently than commercial banks (see chart 4).

Changes in efficiency are also important. The expenses/income ratio of the co-operative banks improved significantly on average between 2002 and 2006 (chart 5). To be able to continue offering an attractive quality at a fair price to members and customers, it is necessary to achieve at least the same efficiency improvements as competitors.

Co-operative banking sector and losses due to the credit crisis

Co-operative banks are traditionally strong in retail banking, which is characterised by a stable income stream and comparatively good access to savings and deposits. Most co-operative banks had only a limited direct exposure on the market for 'toxic mortgages'. In addition, income from wholesale banking was relatively limited for most co-operative banks, the smaller ones in particular. Losses on complex credit products as a result of the crisis and revenue losses from wholesale banking are therefore limited in relative terms. Nonetheless, the

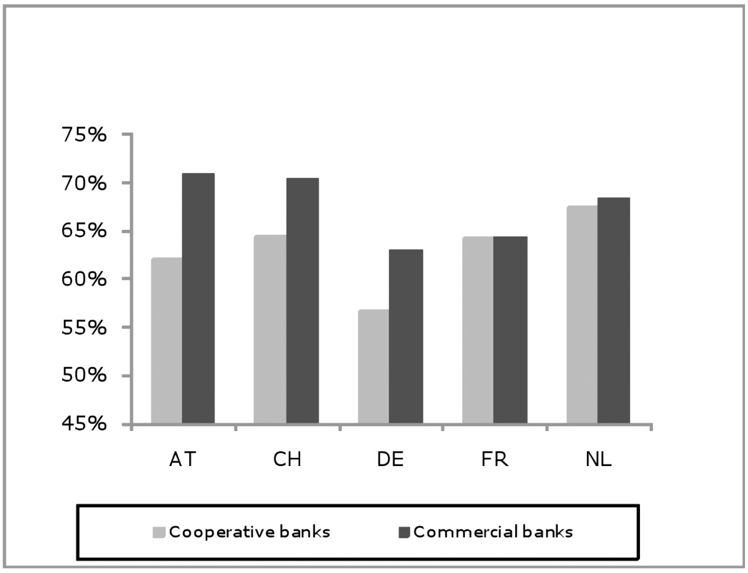
Table 2. Average financial performance of banks, 2002-2007 (sample)

	Co-operative banks (N=9/O=53) Percentage (standard deviation)	**Commercial banks (N=36/O=159)** Percentage (standard deviation)
ROE	9.3 (4.5)	13.4 (8.5)
ROA	0.4 (0.2)	0.5 (0.3)
Core capital ratio	4.7 (1.4)	3.6 (1.4)
Tier 1 ratio	9.2 (1.4)	8.4 (1.4)
Cost/income ratio	62 (6.7)	61 (13.3)

Source: Rabobank calculations (2008) based on annual reports. Figures are based on 45 large banks established in Western Europe. N= number of banks. O = number of observations during 2002-2007.

amounts involved are still considerable for the co-operative banks as well, certainly for the large banks. In addition, the economic crisis following the credit crisis will hit co-operative banks hard, as it will all other banks. Moreover, the competitive conditions are fairly distorted by all government interventions and funding costs have risen for all banks, including banks not needing the state support.

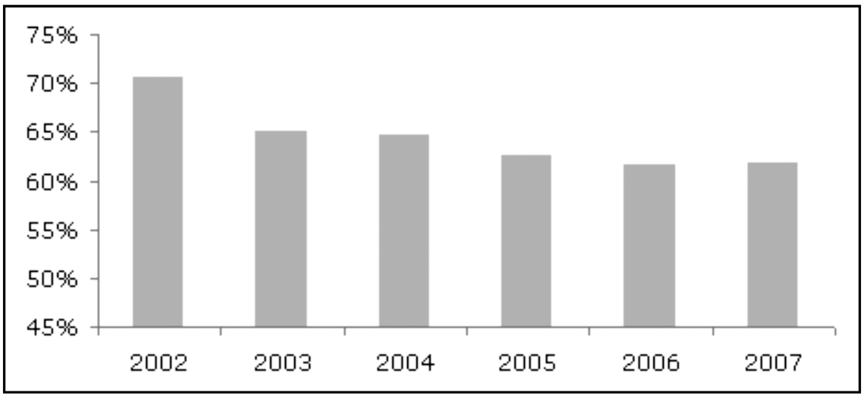
Unfortunately, large co-operative banks did suffer considerable losses on wholesale banking operations and structured products. These losses are shown in table 3 as a percentage of the balance sheet and of equity, up to the time of completion of this publication (May 2009). Naturally, write-downs in the co-operative banking sector were largest for the largest co-operative banks in Europe. Compared to the balance sheet totals



Source: Rabobank & ECB (2008)

Note: AT = Austria, FR = France, DE = Germany , NL = Netherlands. The co-operative banks in these countries were compared with the total group of 45 banks.

Chart 4. Cost/income ratio by country (2002-2007)



Source: Rabobank (2008)

Note: The calculations cover Germany, France, Austria, the Netherlands and Switzerland. The data for 2008 are not yet available because not all annual reports have been published yet.

Chart 5. Cost/income ratio of co-operative banks (2002-2007)

Table 3. Write-downs and losses resulting from the credit crisis at a number of co-operative banks (from July 2007 to year-end 2008)

Bank	Write-downs and losses as % of equity	Write-downs and losses as % of balance sheet total
Crédit Mutuel	6	0.3
Rabobank	6	0.3
Banque Populaire	9	0.5
DZ Bank / BVR	14	0.5
Crédit Agricole	14	0.5
RZB	15	0.7

Source: Annual reports and press releases of the banks concerned. The calculations are based on equity and balance sheet totals at year-end 2008.

and equity, the write-downs/losses at co-operative banks are substantial in a number of cases, but fortunately still bearable in relative terms.[12]

These amounts call for an important qualification. The indirect effects of the credit crisis have not yet materialised, and could not be quantified at the time of writing. They include, for example, the drying up of the interbank markets, the substantial distrust and uncertainty between banks, government intervention in the banking sector as well as the sharp global recession with the concomitant increases in bankruptcies and business failures.

Credit default swaps of co-operative banks

A *credit default swap* spread (CDS) is the price that is paid/asked (in base points above the European swap interest rate) for insuring against the risk of a counterparty's failure and provides an indication of the probability of such failure. Given the characteristics of co-operative banks, these spreads are expected to be lower for them than for commercial banks. As mentioned above, co-operative banks have guarantee systems that minimise the risk of failure of individual local member banks.

Unfortunately, CDS spreads for appreciably long time spans are only available for three large co-operative banks (Crédit Agricole, Rabobank and RZB). We have compared changes in these premiums with those of five large commercial banks: BNP Paribas, ING, HSBC, Santander and Société Generale (chart 6). These are medium-to-large banks with substantial retail operations and significant wholesale banking operations. In the period from 2003 to the beginning of 2005 the probability of default for the three co-operative banks was estimated to be only slightly lower than for this group of five banks. This difference in CDS spreads in fact even narrowed further up to the summer of 2007.

It is also evident that the CDS premiums for banks rose in stages after the crisis broke out at the end of July 2007: in mid-August 2007 they fell in response to intervention by the Federal Reserve Bank and the European Central Bank, only to rise again subsequently. This pattern was repeated a number of times, as it became clear time and again that no end to the problems was yet in sight. Around the start of October 2008 spreads for all banks skyrocketed, but those for co-operative banks did so to a slightly smaller extent.[13] They subsequently fell somewhat again and the spreads for the three co-operative and five commercial banks are at about the same level. From 2008, the risk premium is influenced by the state aid given to banks. We'll come back to this aspect later on.

The CDS results are surprising. We would expect the risk of failure for co-operative banks engaging mainly in retail activities, with a strong capitalisation and with guarantee schemes, to be lower than for the group of banks with more investment banking activities and a greater international focus. The CDS spreads for the co-operative banks would on that basis have to be significantly lower. We can only guess at sound explanations of why that is not the case. One explanation could be that the international activities of the three co-operative banks distort the outcome. Those international activities can involve greater risks than the domestic activities (see RZB in Eastern Europe). Finally, from October 2008 no difference is visible any more in terms of the CDS premium. This is certainly influenced by the state support and capital injections. Risk premiums for banks receiving support fall compared to those for banks that do not. The flatter difference in risk premium can also be viewed as an assessment by investors that everything and everyone has become vulnerable owing to the crisis. In brief: this measure is surrounded by many uncertainties and does not support the hypothesis that co-operative banks are safer.

Stability of co-operative banks: the Z scores

An elegant and simple measure for assessing the stability of co-operative banks and their impact on the stability of financial systems is the Z score. The Z score is used to compare the financial stability of a bank with that of other banks. This subsection focuses on the

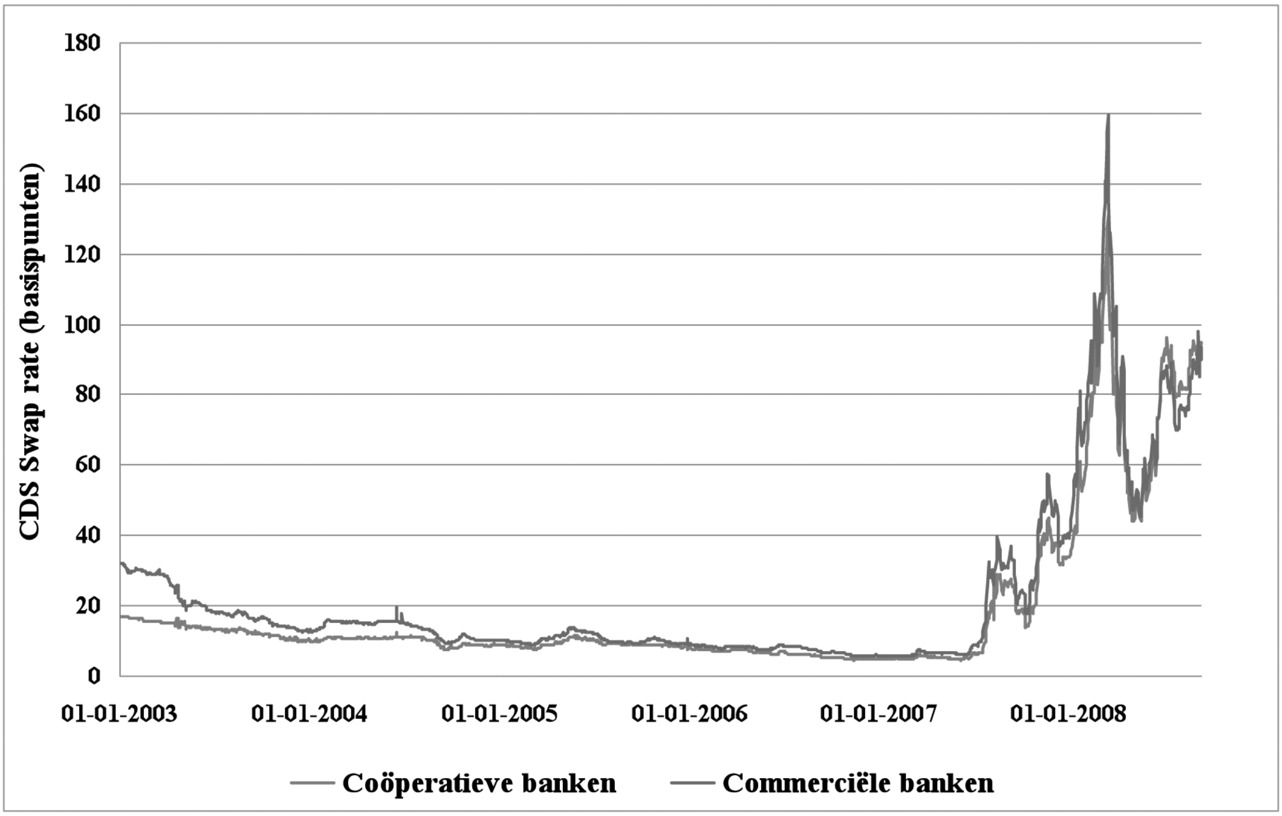


Chart 6. Credit default swap-spreads Source: Bloomberg

insights offered by this score. The Z score is determined by three factors: the return on assets (ROA), equity versus assets ratio (E/A) and the stability of the return on total assets (ROA). The Z score indicates by how many standard deviations the return on assets has to change to cause the bank's assets to fall below the value of its debts. The higher the Z value, the more stable the bank (Mercieca et al., 2007). The Z score is calculated as follows:

$$Z - score = \frac{\mathrm{ROA} + \mathrm{E/A}}{\sigma\,(\mathrm{ROA})}$$

The table below shows the components and Z scores of 45 large European banks with a balance sheet total in excess of € 50 billion. This concerns 36 commercial banks and 9 co-operative banks.[14]

In the entire period, the Z scores of the group of co-operative banks are substantially higher than those of commercial banks in the sample. In addition, the Z scores of the last group declined since 2002 by five points from 46 to 41, while those of co-operative banks have remained at around the same level. According to this measure, and based on this sample and time series, co-operative banks are therefore more stable.

In terms of the three components, the ratio of equity/total assets at co-operative banks is systematically higher. This supports the observation that co-operative banks maintain larger capital buffers, on average. By contrast, the average return on assets for the whole period is lower for co-operative banks. This partly reflects the primary focus on maximisation of customer value. The ROA of co-operative banks has been continually developing towards that of commercial banks in the past few years. A reason for this could be the aforementioned efficiency improvement in the co-operative banking sector. Finally, the volatility of returns is lower at co-operative banks, again in line with theoretical expectations. This can be largely explained by the relatively extensive retail operations of co-operative banks, which on the whole generate more stable profits. In sum, the lower profitability of the co-operative banks is more than matched by a higher equity/asset ratio and more stable returns on assets.

A notable feature in the development of the three components is that the level of the equity/assets ratio (E/A) declined significantly at commercial banks in the run-up to the crisis, from 2006 to 2007. At the same time, this ratio only came down marginally at the co-operative banks in the sample. A possible reason is that total assets rose strongly at these commercial banks and that they only partly retained their profits according to the wishes of their shareholders. The co-operative banks entered the crisis with larger buffers, which again calls for the qualification that in good times, high buffers are viewed as 'non-productive'. It is

Table 4. Components of Z scores

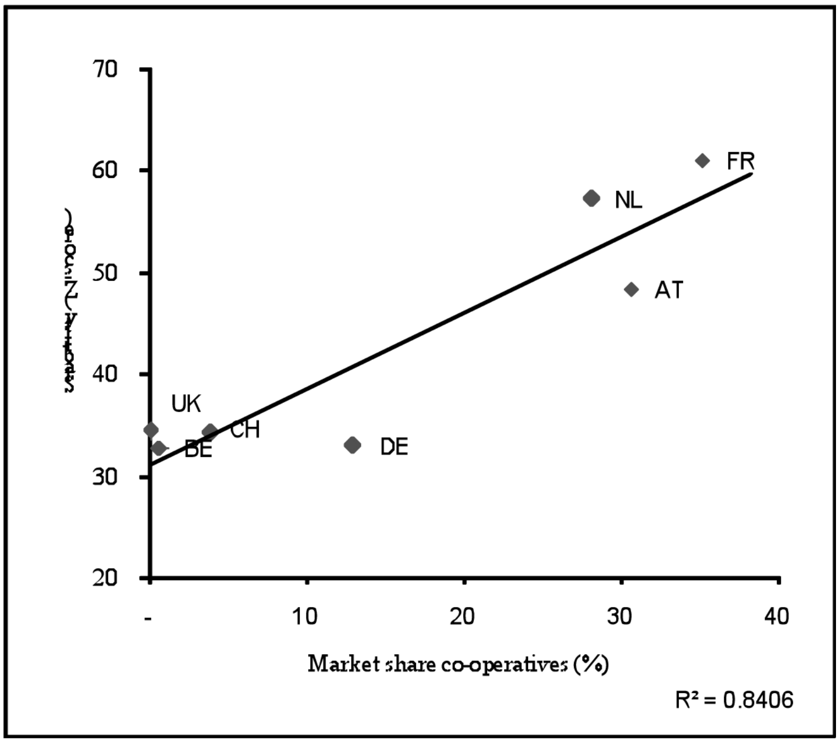
	2002	2003	2004	2005	2006	2007
Commercial banks (N=36)						
Core capital ratio	3.82%	3.76%	3.49%	3.38%	3.37%	3.05%
ROA	0.32%	0.45%	0.58%	0.57%	0.57%	0.46%
St dev ROA	0.18%	0.17%	0.17%	0.17%	0.17%	0.16%
Z score	46	46	45	45	45	41
Co-operative banks (N=9)						
Core capital ratio	4.31%	4.38%	4.57%	4.33%	3.95%	4.01%
ROA	0.29%	0.31%	0.41%	0.46%	0.47%	0.40%
St dev ROA	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Z score	55	56	59	57	54	54

Source: De Groen (2008). Calculations based on annual reports.
Note: 45 large European banks are included in the sample, all with a balance sheet total in excess of € 50 billion. The figures are weighted with respect to total assets. The standard deviation is calculated for the entire period 2002-2007.

Table 5. Z scores of six European countries (2002-2007)

Country	Commercial banks	Co-operative banks	Total
Belgium	33	—	33
Germany	25	80	33
France	115	41	62
Netherlands	40	108	57
Austria	15	82	48
United Kingdom	34	—	34
Switzerland	13	97	34

Source: Calculations by Rabobank, based on annual reports



Source: Own calculations on the basis of data from the European Central Bank and annual reports of 45 large banks with balance sheet totals of € 50 billion or more.

Note: AT = Austria, BE = Belgium, CH = Switzerland, DE = Germany, FR = France, NL = Netherlands, UK = United Kingdom.

Chart 7. Relationship between market share of co-operative banks and average Z score in 7 countries therefore not by definition 'good' or 'better' to have a high buffer. In addition, returns on assets fell for all banks in the sample from 2006 to 2007.

Table 5 presents the Z scores at a country level, for the same 45 banks. It should be noted that banking operations outside the home market are also included. The calculations reveal that the co-operative banking sector is also very stable at a country level. France is an exception to this. It is not quite clear why that is the case. Possibly, the acquisition of Crédit Lyonnais by Crédit Agricole in 2002 affected the data series or the large and partly listed Crédit Agricole actually more closely resembles a commercial than a co-operative bank. Belgium and the United Kingdom do not have co-operative banks of any significant size (any more).

Chart 7 shows how the average Z scores of all banks in the country where they are established relative to the market share of co-operative banks. On the basis of the straight solid line, there appears to be a positive relationship between the size of the co-operative banking sector and the average Z score of the banking sector in the home market. But further examination of the significance of this relationship is required.

Box 2 Credit and deposit growht at European co-operative banks

One of the hypotheses in section 3 is that co-operative banks – can – support their customers for a longer period than other banks owing to their long-term focus on customer value and good capitalisation. In this respect, it could be instructive to examine whether credit growth was higher at co-operative banks than at commercial banks. However, it is still too early to test this hypothesis empirically. The required data are not yet available, but should be at the end of 2009.

On the liabilities side, the stability of co-operative banks can be reflected in turbulent periods in a rising deposit market share. In uncertain times, savers tend to select solid and stable banks. In the Netherlands, Rabobank was initially faced with a sharp rise in savings owing to turbulences at competitors as well as the switch from investing to saving on the part of private customers. When the state nationalised Fortis/ABN Amro and both ING and SNS received state support, the competitive environment for banks changed substantially. The existing uncertainty among the public with regard to the nationalised or supported banks abated to some extent but a return to normality is still a long way off. The results and figures of all European co-operative banks will be awaited with interest in the coming period.

Conclusions

It is too early to draw final conclusions for co-operative banks from the present financial crisis, as the storm could rise again and many relevant data only become available with significant delays. What can already be concluded however is that so far the European co-operative banks have weathered the credit crisis comparatively well. On theoretical and analytical grounds, their business models and characteristics have proved to be major stabilising factors in national financial systems. It should be emphasized that problems in the lending portfolio due to the economic crisis may become visible in 2009 and 2010. Moreover, at Crédit Agricole, DZ and RZB (international) wholesale activities may still cause negative surprises.

Empirically, these claims can as yet only be substantiated in part. Tentative comparisons with commercial banks on the basis of key financial figures and simple measures of banking stability indicate a beneficial influence of co-operative banks on the stability of national financial systems. Before the US asset price bubble bursted, co-operative banks did actually have better Tier 1 ratios, more stable profit growth and a more solid balance sheet structure. Their operations, measured in terms of the cost/income ratio, became more efficient in the years before the crisis. At the end of 2009, firmer conclusions will be possible on the position of co-operative banks in the recent financial crisis.

The co-operative banks are experiencing the consequences of the credit crisis through various channels and this article has provided a number of examples of these. The situation is very serious for all banks and the kind of confidence in the financial system that appeared to be existing for many years is still far beyond the horizon at present. In addition, the reputation of banks is seriously damaged. The credit crisis has gravely discredited the banking profession and the entire sector has come to be seen in a bad light. Worldwide drops in asset prices are causing banks to write down investments and to be reserved with lending. The turbulences also lead to reduced possibilities for funding in wholesale markets and there is distrust in the interbank market. Funding costs are soaring.

If there is one lesson to be learnt for co-operative banks, it is that they must continue to steer a steady course and remain close to their core values and to traditional banking. Literature shows that the largest losses arise as soon as co-operative banks stray beyond the traditional scope of their business. Co-operative banks can make themselves heard jointly and take the lead in setting up the new global financial system. Retail banking is making a genuine comeback owing to the credit crisis. A very different view is taken nowadays of banks' risks and the importance of solid capitalisation – both aspects on which co-operative banks already scored better before the credit crisis broke out. But additional comparative studies are required to develop a better understanding of the performance and impact of co-operative banks compared to other banks in the present turbulent market conditions. The *Center for Economic Policy Research*, a think tank in Brussels, is currently studying this in depth at the request of the European Association of Co-operative Banks, and Rabobank will surely contribute to this line of research in the coming years too.

Notes

1 Groeneveld and De Vries work at Rabobank Nederland. The views expressed in this article are personal and do not necessarily reflect those of Rabobank Nederland. The authors are very grateful to Willem Pieter de Groen for collecting and preparing the data (De Groen, 2009). This article was completed in June 2009. Correspondence to: j.m.groeneveld@rn.rabobank.nl.

2 We are venturing into largely unexplored territory here. For instance, the basic principles and implications of the co-operative model rarely feature in the recent academic literature (see Kalmi, 2007). Recent studies include those by the IMF (2007) and Oliver Wyman (2008).

3 This is described in detail in Groeneveld (2008).

4 The iTraxx Crossover 5Y index is based on a basket of (credit default spreads) for European companies with a rating below investment grade. The spreads mirror differences with the five-year European swap interest rate.

5 The Institute of International Finance (2008) advised on the payments structure at the start of 2008. The Advisory Committee on the Future of the Dutch Banking Association (De Nederlandse Vereniging van Banken) has released the report "Towards Restoring Confidence" in April 2009.

6 Co-operative banks do not distribute profit but add it to reserves, which is the main reason for their strong capitalisation. Profit is necessary to finance growth and provides a buffer for inclement times.

7 The performance of the co-operative is not merely restricted to its financial performance or favourable pricing for customers. Performance is also reflected in the degree of customer satisfaction, in the extent banks act in customers' interest, in the access offered to networks and knowledge of the bank, in the stability/duration of relationships, in the way banks deal with the environment/sustainability, in the degree of transparency et cetera (not necessarily in that order). It is virtually impossible to quantify the latter elements of 'performance'.

8 Tier 1 ratios under Basel 2. The statutory requirement is 4% but in practice the market demands 8%. This last percentage is included here.

9 The IMF (2007) claims that members have a reduced incentive to stimulate an optimum use of the high capital base, because they do not have a direct claim to the capital (it is 'capital in dead hands'). This could possibly give rise to a risk of opportunistic investments by the executives of the bank. In this connection IMF researcher Fonteyne emphasises the importance of good governance and transparency for co-operative banks. This theoretical argument must be seen in the correct perspective however, as the influence of members at a local level passes to the central executive institutions with little dilution and these members can exert a major influence on the day-to-day decisions taken by the most senior management.

10 In the past, co-operative banks were sometimes criticised that their retained profits could be used more productively for the economy (see Oliver Wyman, 2008). This criticism is less frequently heard nowadays.

11 To increase capital flexibility, some co-operative banks created various options in the past to strengthen their capital base. The French Crédit Agricole took a far reaching step in listing over 45 per cent of its country organisation on the stock exchange market. Rabobank has introduced members'certificates, trust preferred securities (tps's) and capital securities.

12 In a number of countries, the co-operative banks also received support as part of a support package for all banks (Crédit Agricole) or because of exceptional circumstances, in Eastern Europe for instance. The banks operating in that region have been hit hard by the collapse of the economy.

13 In these times in which trust in banks is fragile, the CDS value can turn into a 'self fulfilling prophecy'. Weaker banks with a high CDS spread run into trouble, because the market sees that other parties are already demanding a higher risk premium. The premium rises further and in the end the bank has to be bailed out.

14 This is a fairly small selection of banks and the results should be seen as tentative. Moreover, the interpretation of the figures must be put in perspective: a higher or lower percentage in one country does not immediately mean that banks are less stable in that country. It shows that within one specific timeframe, the volatility of results was greater with regard to the balance sheet and equity.

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Overcoming Challenges to Governance in Consumer Co-operatives: analysing reports of key representatives

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Abstract

Governance is tricky in every organizational form, but especially challenging it is claimed in consumer co-operatives. The features that make distinct the consumer co-operative from other organizations are not only the basis for specific models of governance, but specific challenges as well. Those challenges have been the focus of several studies in co-operative management. Yet, empirical research on governance of consumer co-operatives remains rather limited and especially rare are studies that give voice to members' key representatives. In this paper, we analyse in-depth interviews with chairpersons of supervisory boards in order to uncover challenges to market control and the mechanisms dependent on voice as well as to identify means to overcome those challenges. We conclude with a set of contributions and suggestions for future research.

Key Words

Consumer Co-operatives, Governance Managerialism, Members

Introduction

Within the passing decade, governance of consumer co-operatives has received increasing scholarly attention (e.g., Chaves, Soler, & Sajardo, 2008; Jussila, Saksa, & Tienari, 2007; Spear, 2004; Cornforth, 2004; Davis, P., 2001; Davis, K., 2001). Several perspectives have been utilised to uncover its special features (see Jussila et al., 2007; Cornforth, 2004). Further, the process in which members' interests are mediated to board and managers (Chaves et al., 2008; Spear, 2004) as well as the role of democratic governance in survival of the organization form (Davis, K., 2001) have been explored. Interestingly, studies have also acknowledged the option of moving from the traditional view of members monitoring management towards a position where managers are seen as leaders of the membership (Davis, P., 2001).

Extant literature identifies several challenges to governance of consumer co-operatives. For example, issues at least partly arising from the democratic 'one-member-one vote' principle, such as conflicts in goal setting, members' low participation (see Vierheller, 1994, for *member apathy*), questionable representativeness of elected officials and accentuation of managerial power have been referred to in recent literature (Chaves et al., 2008; Spear, 2004). We contribute to the discussion by analysing supervisory board chairpersons' accounts of governance in Finnish S Group co-operatives. S Group, owned by 1.8 million members of its co-operatives, is currently the market leader of daily consumer goods in Finland with 42.4 % share of the market (Nielsen 2009; www.s-kanava.fi; accessed 24.3.2009).

Our work advances research on governance of consumer co-operatives in several ways. First, it examines members' influence via market and voice dependent mechanisms in a single study, providing additional insight into the combination of customer and owner – roles in consumer co-operatives. Second, our work is based on analysis of qualitative data, adding to the sparse empirical evidence on the topic. More precisely, we investigate the challenges to co-operative governance and means to overcome them from a key actor perspective. Finally, what might be of interest to the readers is that our empirical context is a group of consumer co-operatives that may be considered as successful in following its mission to provide concrete benefits to its members (i.e., it raises the expectance of uncovering efficient ways to discipline the management).

The article is structured as follows. We begin by introducing the reader with the basics of corporate governance, which in this paper refers broadly to the mechanisms of keeping business activity congruent with the members' objectives. Then we turn our attention to the related challenges, as they are depicted in extant literature. After reporting our methods, we proceed with the analyses in themes. Finally, we conclude with a discussion of our findings relative to extant literature and identification of gaps of knowledge worth addressing in future research on co-operative management.

The members' ways of influence in consumer co-operatives

Just like customers of any company, members of a consumer co-operative have two ways (market and non-market) of influencing its operation: exit and voice

(Hirschman, 1970). However, what is peculiar to consumer co-operation is that a great proportion of customers have exchanged a co-operative contribution for ownership rights. In other words, as 'customer-owners' the members may pursue keeping their co-operatives' business congruent with their objectives through market control as well as voice dependent mechanisms that go considerably beyond those available for customers of non-user-owned firms.

Market control

Poor liquidity of ownership has been viewed as a challenge to co-operative governance. In brief, it has been considered that "there is no market for corporate control in co-operatives that can serve as a source of discipline for co-operative managers" (Hansmann, 1999: 397-398), since the membership interests in co-operatives are not generally tradable. However, this notion seems misleading given that capital ownership is not essential in co-operatives. Although there is no market for co-operative stock (which would provide top management with signals of member satisfaction), markets do control consumer co-operatives through owners' behaviours as customers. In fact, Jussila et al. (2007) go on to suggest that the role of members as buyers of products and services in consumer markets parallels that of investors in stock markets.

While the above comparison of roles may not be entirely viable, the view is supported by the fact that the purpose of co-operation is to benefit the members as service users as opposed to rewarding them as investors (Borgen, 2004). Against this background, the influence through *buying behavior* (i.e., acts of people involved in buying and using products) seems to be a crucial element of governance in consumer co-operatives. Here the concept of exit becomes relevant. Customer exit alá Hirschman (1970) refers to switching to use a competitor's services as a result of dissatisfaction in the service producer one is accustomed to use. It does not, however, necessarily refer to quitting the use of all services of the particular service producer (which would be the ultimate case), but the ones that fail to meet the customer's needs.

Voice dependent mechanisms

Ownership of an enterprise contains not just the right to benefit from the organizations' operations, but also right to get information of, govern and control those operations (Hansmann, 1996). As implied above, members of a consumer co-operative have influence on the operation of their co-operative not only through buying behaviour but also through voice, which refers to interventions aimed at improving the operations while keeping on buying (Hirschman, 1970). The influence attempts may be direct or indirect of which the latter seems to be highlighted in extant co-operative governance research (see e.g., Chaves et al., 2008; Spear, 2004).

In indirect influence, members use their voice via administrative structures of the co-operative. Especially when the size of the organization is small, the members may run their co-operative with means of democratic participation (i.e., with the principle of one-member-one-vote) in general meetings (Chaves et al., 2008; Vierheller, 1994). In larger organizations member democracy may be pursued through the use of a representative body, which will act on behalf of the whole membership: 1) decide about common matters, 2) assign agents (managers) to run the daily affairs of the organization, and 3) monitor and control the agents' operations (Jensen & Meckling, 1976). Further, members may also delegate the use of voice to administrative institutions such as the supervisory board and the administrative board (Hansmann, 1996). The use of the above given institutions is rational due the fact that typically there are lots of people involved in operations of a consumer co-operative (i.e., governance will be more efficient in terms of time and money; Hansmann, 1996).

Direct influence refers to that customers – in this case the 'customer-owners' – may use their voice also by giving immediate feedback of operations to management and/or other personnel, by making telephone calls and/or by writing letters to managers etc (e.g., Hirschman, 1970). It seems that in the context of co-operatives, such use of voice is crucial for continuous improvement of operations. As Saxena and Craig (1990) argue: "member involvement and continuing feed-back from them…is essential to the success of a consumer co-operative" (p. 493).

In sum, co-operative governance is best described with influence via buying behaviour and use of voice. Considering the combined roles of customer and owner, one might expect efficient and intense control by the members over their co-operative (cf. Hansmann, 1999). However, neither of the forms of influence is unproblematic. Next we will address some of the challenges identified in extant literature.

The challenges to market control

Expressing dissatisfaction with (customer) exit requires that the actor dispensing with the usage of services of an organization has some other possibility to get the services needed. In other words, exit requires effectively functioning markets – if the markets do not work, neither does market control (Hirschman, 1970).

In our view, members' possibilities to influence via buying behaviour are to that extent often questionable. For example, the initial starting point of co-operation (i.e., to counteract market failures; Nilsson, 2001) indicates that where co-operatives thrive markets do not necessarily work very well. As the value of consumer co-operation to the member in many cases consists of access to goods and services otherwise not provided (Fulton & Hammond-Ketilson, 1992), members are unable to exit. Thus, it may be considered that in such markets the threat of feet voting does not provide the management any incentive to improve the services of the co-operative.

Another challenge related to market control is members' commitment to co-operation. According to Fulton (1999), member commitment is important to co-operatives, as it indicates how well the co-operative is able to differentiate from its competitors. The greater the ability to differentiate, the easier it is for the co-operative to retain its market share. However, herein lies a challenge to governance: strong affective-based commitment to 'the co-operative movement' (or a particular co-operative) may result in reluctance to use the services of other organizations (i.e., to exit), even if they involved (economic-wise) better terms of trade (Fulton, 1999).

What is noteworthy, however, between market control and voice dependent mechanisms, one is considered to become emphasised over the other depending on their effectiveness. The work of Hirschman (1970), for one, suggests that when there are no alternatives present (i.e., the threat of exit is unreal), the customers are likely to use their voice to maintain or initiate improvement of operations. Further, similar line of thinking is found in Cook's (1994) work which leads us to believe that committed members are likely to experience a personal responsibility to use their voice in all ways in order to improve the operations of their co-operative. In other words, it seems reasonable to believe that the behavioural manifestations of the sense of responsibility may override the negative effects that commitment may have on market control. Next we will focus on the challenges to influencing through voice.

The challenges to voice dependent mechanisms

Extant literature (e.g., Chaves et al., 2008; Spear, 2004; Cornforth, 2004) identifies numerous challenges to voice dependent mechanisms of co-operative governance. One of these is the complexity related to the number of participants. Chaves et al., (2008) report that "the mean participation observed in Spanish credit co-operatives barely surpassed 6%, when the attendance of AGMs of capitalist companies quoted on the Spanish stock markets accounts for 73% of their capital" (p. 33). On the co-operatives' part these figures are severe given that in a democratic entity members' participation is crucial to ensure good co-operative governance. Thus, an important question asks: Why is the attendance so poor?

Spear (2004) observes that when the size of a co-operative becomes larger, the proportion of members participating in governance tends to decrease. Vierheller (1994) explains this tendency as follows: "an increase in the size of a group is usually accompanied by a decrease in the cohesiveness of the group, since social and socio-emotional ties are stronger in smaller groups than in larger groups" (p. 649). In other words, as the strength of the social and socio-emotional ties reduces, members' awareness of their ownership weakens (Vierheller, 1994), which results in lower participation. Further, a more individualistic (and economic-rational) explanation is that when compared to the amount of work needed, the utility from such participation is relatively low (e.g., Walsh & Seward, 1990). For example, members may think that it is not rational for them to participate since in most cases their voice will not make a difference. When this kind of disbelief is in place, one may conclude that majority of members do not have an influence on the board and therefore neither on the management (Spear, 2004). What may be even more serious to co-operatives, dissatisfied members are more likely to exit, if they are not convinced about the effectiveness of their use of voice (Hirschman, 1970).

As our earlier discussion implies, consumer co-operatives have pursued overcoming some of the above mentioned challenges by adoption of additional bodies. However, their use is not unproblematic either (e.g., Spear, 2004; Cornforth, 2004). First, there is the question of representativeness of elected officials, which is traditionally evaluated against social structure of the membership (Chaves et al., 2008) or demographic factors (Spear, 2004). However, even if representativeness is adequate according to these factors (which is often not the case since members that do elect the board are typically people from the same social or cultural group; cf. Spear, 2004) it is justifiable to ask: if only fraction of membership participates to election of officials, how can they represent or even know the interest of the whole membership?

The second point worth outlining relates to goal setting. That is, the elected official should be able to formulate clear and consistent objectives for the co-operative. This may not be an easy task in a democratic organization. Spear (2004) maintains that among members “there may be debates and conflicts over the quality and range of services provided” (p. 46). In addition, while members expect instant benefits from their co-operative, Jokisch (1994) stresses co-operatives’ “necessity of making profits in order to realise a permanent potential for promoting the interests of members” (p. 25). Thus, in that regard there is a tension between short and long-term objectives, which relates to the ancient dilemma of individual and collective ownership.

Third, an important aspect and challenge to governance is the criterion according to which the performance of the co-operative is evaluated. That is, the conventional indicators of success (e.g., profit) may not be applicable in consumer co-operatives, since most members are not interested about profits made by their co-operative, but about the benefits they themselves get as users (Borgen, 2004; Spear, 2004). Therefore, measures of performance should be grounded on the specific objectives of this particular organizational form. Spear (2004) maintains that this should also be taken account when designing management incentive structures. Market share has often been considered as an appropriate indicator of co-operative management’s success. Yet, there are challenges to using this indicator as well. Jokisch (1994) maintains that “success in the market is very well possible without success in promoting members’ interests” (p. 25). According to Fulton (1999), high market share may simply reflect members’ high identification-based commitment (i.e., their affective-based willingness to continue usage of their co-operative’s services), not how well the co-operative performs in economic-rational terms. That is, a co-operative may appear to be successful, but practically be more of an economic disadvantage to members. Although it is acknowledged that the value of ownership for consumers does go beyond the economic-rational aspects predominant in the Western discourses of ownership (e.g., Jussila, Tuominen, & Saksa, 2008), it is considered that a co-operative does not fulfil its primary purpose unless it provides its members with concrete benefits (Saxena & Craig, 1990), for example in terms of lower price, more convenient store location, and patronage refunds.

Fourth, the challenges arising from poor competence of elected officials are often highlighted (e.g., Cornforth, 2004; Spear, 2004). As ownership in co-operatives is fragmented and governance is democratic, the power does not concentrate on a single interest group and the risk of take-over is not present (Spear, 2004). Therefore, the most important controller of top management is the administration. Due to the lack of stock market information, it may be argued (see Cornforth, 2004; Nilsson, 1999) that the administration of co-operatives operates in settings more demanding than those of investor-owned firms (IOFs). In addition, as indicated above, the scarce information there is might be unusable because it is produced according to standards that do not recognise the distinctive nature of consumer-ownership. Therefore, while we agree with Davis, P. (2001) in that managers of co-operatives should have “a real understanding and commitment to co-operative purpose and values” instead of leaving co-operatives “in the hands of managers who see themselves as retailers, marketers, financiers, bankers” (p. 32), we also believe that in order to secure that members have their co-operatives managed according to their needs and will, elected officials should possess adequate economic and other competencies to deal with matters of the co-operative. Otherwise a door is open for managerial power to become overwhelming, as noted in some studies (e.g., Chaves et al., 2008; Spear, 2004). To close that door, current and potential board members must be provided with adequate training (Cornforth, 2004).

Finally, there is the notion of direct influence in terms of feedback (Saxena & Craig, 1990; cf. Hirschman, 1970). Cook (1994), for one, believes that members of a co-operative are probably more willing to provide information and feedback to management than are customers of, for example, an IOF. This is because there is a motivation for the members to make their co-operative more efficient in satisfying their needs (Jussila et al., 2008). Overall, the sparse notions on this issue do not seem to indicate that direct influence is viewed as much of a challenge to consumer co-operatives.

In sum, extant literature identifies several challenges to governance of consumer co-operatives. They are summarised in Table 1. After describing the context, methods and data of our study, we will use the framework presented here to analyse empirical accounts about related themes.

Context, methods and data

S Group is comprised of 22 regional co-operative enterprises and central unit SOK with its subsidiaries. In addition there are 10 local co-operatives included in the group, but their contribution to its total turnover is marginal. The purpose of S Group is to provide the members with services and benefits, operating in

Table 1. The challenges to governance as depicted in extant literature

Influence via buying behaviour

- Insufficient possibilities for expressing dissatisfaction with exit – resulting from imperfect functioning of the markets
- Members' reluctance to influence via exit – resulting from their affective commitment

Influence through voice

Indirect influence:

- Member passiveness – resulting from members' unawareness of ownership rights or efficacy disbeliefs
- Poor representativeness of elected officials – resulting partly from passiveness
- Indecisive goal setting – resulting from members' conflicting interests
- Poor control over the management – resulting from lack of appropriate performance indicators and/or incompetence of elected officials

Direct influence:

- No challenges identified

supermarket trade, service station store and fuel trade, department store and specialty store trade, hotel and restaurant business, vehicle and automotive accessories trade, agricultural trade as well as in-store banking.

At the end of 2008 S Group had 1.8 million members, being the market leader of daily consumer goods in Finland with exceptionally high 42,4 % market share (Nielsen 2009; www.s-kanava.fi; accessed 24.03.2009). Financially S Group is in solid condition. In 2008, the S Group's retail sales were 11.8 billion and this totalled an increase of 12.1% from the previous year. S Group's total profit before extraordinary items was 250 million euros; whereas the profit for the year before was 318 million. Members were paid 306.5 million in bonuses and the S Group's bonus sales increased by 13% year on year, totalling 7.7 billion. The proportion of bonus sales in the S Group's Finnish sales was 66%. At the moment, 73% of all Finnish households are members of S Group co-operatives. (www.s-kanava.fi; accessed 24.03.2009).

The co-operatives' governance systems include three bodies: 1) general meeting or the representative body, 2) the supervisory board, and 3) the board of directors. The data of this qualitative study (e.g., Denzin & Lincoln, 1994) consist of 22 in-depth interviews with supervisory board chairpersons of the regional co-operatives and of written materials published by S Group. The size of the co-operatives represented by the interviewees varies from less than ten thousand to more than half million members. The interviewees were chosen because they are the top representatives of owners (CEOs act as chairpersons of the board of directors in S Group).

The data collection was conducted by one of the authors during the year 2007. All interviews were taped and transcript; altogether the interviews produced 550 size A4 pages of transcript text (with font 12 and line spacing of 1). The data was studied systematically to gain understanding of the research context and to form a preliminary understanding of the subject of research. After that the data was organised under different themes and analysed in detail by two of the authors.

Overcoming challenges to governance in S Group

Next we illustrate how the supervisory board chairpersons speak of challenges to governance that they have witnessed as key representatives of their co-operatives. We use the above reviewed co-operative literature to thematically analyse their reports. Further, we concentrate particularly on how they consider those challenges may be managed and overcome.

Insufficient possibilities for 'feet voting'

According to our data, exit is a viable mean to influence a co-operative's operation. That is, if the members do not find the services provided by the co-operative satisfactory, they go to some other service provider (cf. Hirschman, 1970). As one of our interviewees described:

> *"If a member notices that we have, for example, promised too much or some service does not meet the standards, a member may 'vote' with his/her feet and buy a substitute product or service from a competitor."*

However, 'feet voting' is in many cases hindered by the questionable functionality of Finnish retailing markets (i.e., the main field of business for S Group co-operatives). The two largest business groups, S Group and Kesko (consisting of independent retailers organised around Kesko Corporation) dominate the markets with combined market share of approximately 76% (Nielsen, 2009). In many local markets customers may only choose between these two suppliers. In some localities exit is practically impossible since S Group co-operatives provide access to a wide range of goods and services otherwise not provided (cf. Fulton & Hammond-Ketilson, 1992). As a chairperson reported:

> *"In small municipalities there may not be any other stores besides S-market, all other stores have been closed in the whole locality."*

However, our interviewees have also observed other kind of developments. First, the German-based chain Lidl penetrated many Finnish daily goods markets adding an option to the members. Second, people have become more and more mobile – in our view due to change in both technology and culture – which has pushed further the boundaries of substitution area. As one of our interviewees put it:

> *"In these days distance is less a problem than it used to be and people may easily travel to neighboring municipalities to buy their bread.."*

Nevertheless, our interviewees emphasised that the structure of the market is not ideal and that a healthy competition benefits consumers (i.e., pushing the co-operatives to do better). No one expressed, however, that S Group co-operatives would be active in inducing competition. In contrast, the attitude of co-operative actors towards constant improvement is likely to intimidate potential entrants. That attitude is well illustrated by an account of an interviewee:

> *"We must be so efficient and good that our customers get the best and cheapest services from their [co-operative] stores." (brackets added)*

The above described entrepreneurial spirit makes us question whether the lack of functioning market automatically poses a severe problem after all. It is made clear in our data, however, that challenges of market functioning are considered real and, in part as a response to it, S Group co-operatives have employed advanced customer data systems to acquire real-time information of buying behaviour of its' rich numbered membership. They collect customer data collectively (i.e., keeping track of all transactions between S Group business places and the customers) and analyses buying behaviour of members in order to uncover and predict their needs (i.e., what products or services they use, where and when they buy them) and to adjust operations accordingly. As reported by the interviewees:

> *"Customer information is gathered collectively from the purchases of members... the co-operative is not interested about what some individual member buys… members are divided into groups in order to follow the transactions"*

> *"Positive development of sales indicates us the customer satisfaction exactly, even hourly… it's concretisised there [in the feedback from the system]... if the sales go down then there is certainly something wrong, customers are not happy... it is monitored all the time." (brackets added)*

The use of such systems reflects on influence via buying behaviour in that even though there sometimes are no other options for members to get their services, the co-operative is intensely (even automatically) steered by their buying decisions (cf. Jussila et al., 2007). Also studies are being constantly conducted to get a hint of the members' future needs, which might not be reflected in their buying behaviour given the existing product and service assortments.

Member commitment

Extant literature (e.g., Fulton, 1999) claims that member commitment to the co-operative may interfere with market control. This is because psychologically attached members are unlikely to exit the relationship they have established with the co-operative, even if it was economically dissatisfactory. This idea is strongly supported by our data. There are loyal "S-people", as an interviewee reported:

> *"Well, even if sausages would cost a bit more in S-market, certain people would not go to buy them from K-market. They find it important to be customers of their own store".*

As a counter argument to the challenge that member commitment may cause to governance in terms of exit, it is maintained in our data that committed members are typically more willing to use their voice to improve the operations than are those whose socio-emotional ties are weaker (cf. Cook, 1994). We will return to this later.

Member passiveness

As owners, members of S Group can influence the operation of their organization by using their voice in the general meeting of their co-operative or by participating in election of representative body by voting. Obviously, a member may also choose to stand as a candidate for election him/herself. Because of the great size of the regional co-operatives, it is common in S Group to have a representative body – supervisory board – administrative board – structure. It is considered that as compared to general meetings, the use of a representative body increases members' influence as it multiplies the amount of people participating in decision-making and provides members with a possibility to vote in co-operative elections. Importantly, it is maintained in our data that members often view their elected representatives as an important channel for exercising indirect control over the management. As an interviewee described:

"As people know that I am an elected official of this co-operative, both the familiar and unfamiliar persons come to me to tell about small or big concerns and I then pass the information forward. And usually, it is clear the messages are listened to, if there are clearly observed defects."

Our findings are not entirely consistent with those of Spear (2004) when it comes to members' passiveness and very different from those of Chaves et al. (2008) from Spanish credit co-operatives. In fact, the turnout percentages in representative body elections are relatively high in an increasing number of S Group co-operatives: in some cases majority of membership (i.e., over 50%) has used their right to vote. According to our data, the increasing participation is, at least in part, a result of active measures against member passiveness taken by many co-operatives with the help of SOK's 'co-operation department,' as the interviewees label it. Members are encouraged to vote in elections and it is made clear to the membership that also younger people may participate (voting age is 15 years).

On the other hand, a concern to our interviewees is that the overall majority of members in S Group still seem to lack interest to closely monitor their co-operative and to participate in any other way than in the role of a service-user. This is seen, for example, in that the number of members aspiring to representative bodies is usually relatively low considering the total count of members. The interviewees considered it as a promising result that in one of S Group co-operatives, 254 of it's more than 54000 members stood as candidates running for 48 seats in the 2008 representative body election. Yet, even in that particular case only about half a percent of the membership was willing to become a representative. The interviewees found three reasons for the lack of willingness to participate.

First, consistent with the work of Vierheller (1994), it was reasoned that low participation is a result of members' poor awareness of their ownership and the associated rights. As one of our interviewees put it:

"I think that, I have been discussing with people a lot during the years and they do not perceive they own this business... very few people who consider themselves as owners.. they say that they have the bonus card, but ownership is blurred."

Second, as a related issue, there is fear that many members simply view the co-operative elections as another element of communal democracy. What may create such association is that in many co-operatives the election lists are politically organised and, thus, members also vote on a political basis, which is not seen as the most relevant criteria considering that the elections concern governance of a business organization.

According to our data, S Group has tried to overcome the above two challenges by active provision of information on the co-operative business. That is, members receive a monthly customer magazine along with a letter from CEO in which current issues of the co-operative (e.g., investment projects) are discussed. Additionally, local newspapers often play a significant role as an information channel. For example, one of our interviewees noted that the co-operative has good relationships with the editorial staff, which makes it easy to inform members and local community about important issues. However, it is also emphasised that more must be done to communicate the principle of political independence of co-operatives to the public and to increase member awareness of their rights.

Finally, consistent with the considerations of Walsh and Seward (1990), it was noted that even if the members are aware of their rights and no confusion is in place, they may not consider there to be enough personal reward for participation. This is not only a problem as it comes to, for example, the number of candidates for representative bodies; it also concerns elected officials' attendance to administrative meetings. As a response, S Group has drawn attention to compensations for participation in administration. As a chairperson reported:

"We try to motivate elected officials with up-to-date compensation for attendance to administrative meetings. The objective is that the compensation is high enough to show them that their contribution is appreciated."

The exact compensations for attendance to representative body, supervisory body and administrative body meetings are not, however, articulated in our data. It is simply expressed that the compensations should encourage the representatives to occupy their important positions as mediators of the voice of membership to the administration and management of S Group co-operatives.

Representativeness of elected officials

It is put forward in our data that members elected to positions of trust should represent the whole membership and their interests as accurately as possible. Consistent with Spear (2004), it is considered that members' low participation in governance makes representativeness questionable.

S Group co-operatives have tried to overcome this challenge by dividing co-operatives' operation areas into districts from which members to representative bodies are elected per capita living and working in those particular areas. Also supervisory boards, which occupy primary monitoring and controlling roles, are supposed to be composed so that they represent districts. Other demographic criteria are considered as well, such as profession and sex so that the supervisory board would represent the membership to as great extent as possible. However, the political basis of listing candidates interferes with this kind of election; in some co-operatives to greater extent than in others. Further, our data indicates that in S Group co-operatives most of the people serving co-operative administration are people who are widely active in societal matters and committed to co-operation as a sustainable model of doing business. People, who are mostly interested in their personal short-term benefits, are not usually represented in co-operative administration. Another concern raised was that, for reasons unexplored, women and younger members are left in the minority in supervisory boards.

As for means for overcoming the above discussed challenges, our interviewees highlight making administrative work more attractive to all members. The sufficient compensations referred to earlier are considered to help in this effort as well.

Goal setting

According to Spear (2004), the representativeness of elected officials has implications on goal setting. Our data indicates that those running for confidential posts in S Group are typically individuals whose main concern is to secure the prosperity, growth and continuance of the co-operative business instead of looking after the short-term benefits of the members. While this is important (cf. Jokisch, 1994), according to our data it does not represent the preferences of the majority of members in S Group co-operatives. As the following quotes illustrate:

> *"You can say that owners have no other interest toward the co-operative than to acquire good products at a competitive price."*

> *"We have a wide membership…of which most are not at all interested about the organization. They are only interested about cheap prices, bonuses, hypermarkets or supermarkets."*

There are concerns that the elected officials are (or become) identified with the appreciated top executives and place themselves on the opposite side of the table with those whose voice they are supposed to mediate to the management. As a result, growth through investments may become overemphasised, while the refunds expected by the membership fall short. Demands have been made for a better balance. As a member cried in a newspaper recently:

> *"When is our co-operative going to start returning some of its profit to its members?"*

It was maintained by some of the chairpersons that there have been attempts to overcome the challenge of member representatives to goal setting. For example, it has been emphasised that the elected officials should not limit their focus on the interests of the group that selected them, but on those of the whole membership. As one of the interviewees reported:

> *"During the recent years I have had to guide the representative body and remind the officials that the mission of it is to…evenhandedly look after the interest of all members so that after being elected, an elected official may not say that some group has chosen me to this position"*

However, despite the good efforts, it is not an easy task to create the balance in goal setting as long as the more individualistic majority, as depicted in our data, remains absent from the administration (i.e., does not have sufficient representation).

Measurement of performance

An important question relating to the above discussion is also how to measure performance (i.e., how to define indicators of success) and how to design appropriate reward systems for management? Our data indicates that the challenges of performance measurement are not strange to those occupying confidential posts. As stated by one of our interviewees:

> *"CEO reward system contains elements of customer satisfaction, but there is a difference in that the CEO system contains almost ten pages of different numbers and analyses so it is very accurate and detailed, but for the other personnel it is currently more obscure"*

As the above quotation indicates, S Group has come to use a wide range of measures that help to asses CEO performance. The merit payments are based on both short and long-term objectives and criteria such as profit, process efficiency, customer satisfaction and employee satisfaction. Further, management success in S Group is also measured with market share (cf. Fulton, 1999) and the share of members' purchases of all purchases (i.e., including those of non-members), which are considered to capture some of the key elements of the co-operatives' mission.

Overall, our data indicates that there have been attempts in S Group to overcome the challenges of performance measurement, but they have not yet been entirely successful. What is of a concern is that the criterion of management reward system is not openly and accurately communicated to members. It is questionable whether this is part of good governance and whether this helps the members feel like owners. Further, it is not likely that members will use their voice when it is obscure to them (based on the information given) whether or not the management has been successful in promoting their interests.

The competence of elected officials

What seems to be a broad concern to our interviewees, as also referred to above, it is not the insight into the governance of a *business enterprise* (let alone a consumer co-operative) that helps a member to become elected, but a prior visible role (e.g., that of a politician) in the locality. What may follow is that those elected are not qualified enough considering the demands of these tasks (cf. Cornforth, 2004; Spear, 2004). According to our interviewees, there has been lots of attempt to overcome this challenge by providing education to those elected. However, except in some rare cases, the education usually refers to a brief seminar in which the trustees are given some basic knowledge about corporate governance and co-operation (cf. Cornforth, 2004). Further, with the sufficient compensations referred to above, co-operatives try to induce the most capable persons from every district to step up as representatives and, thus, overcome the challenge of competence in administrative institutions.

As it comes to competence of administrative board, where the strategies of S Group co-operatives are defined, members to the board are chosen solely on the basis of their know-how in the area of business administration know-how. It is maintained in our data that ideal members of the board are 'of the same calibre' with CEO as it comes to this criteria. However, this is not always realised and the CEO, occupying also the chair of the administrative board (a regulative position in S Group), is seen as having the dominant role (cf. Chaves et al., 2008; Spear, 2004). As an interviewee put it:

"Who uses power in the co-operative… the CEO is number one and as the CEO is also chairman of the administrative board, the power related to that position becomes emphasised"

In addition to the power invested in CEOs by regulation, our data speaks for high informal power through their superior competence. It is maintained that CEOs may even interfere with the selection of representatives, promoting their own favourites. In other words, it is considered that CEOs can, if it is in their interest, silence the voice of membership.

While the interviewees see that the accentuation of CEOs power is not necessarily a good thing or something that will be considered as 'good governance,' the majority of them do not want to pursue changing the practice as it has so far been succesfull. As one our interviewees put it:

"Well, first I must say that the CEO-centred system, business management centred system has produced good results for the last 15 years. So if it works, why should I bother to change it because of some noble principles of governance? The principles are not, if there is a collision between reasonable operation and the noble principles, then we rather choose reasonable operation"

Although the pronounced power of business management has not lead to harmful deviances in S Group, it is considered that extreme care should be taken in that appropriate persons are chosen to the key positions. Consistent with the ideas of Davis P. (2001), it is maintained that co-operatives can avoid the deviances by ensuring that recruited top managers have internalised the co-operative purpose, values and principles. Our data indicates that the majority of the co-operatives' CEOs are recruited from managers who have worked in S Group for a long period of time after completing their trainee program (the first program started in 1950). It is reported that these CEOs push their organizations and the group towards efficient provision of services and concrete benefits to the 'customer-owners.' It is also put forward that those who do come outside of the group (and co-operation) gradually become 'co-operators' as they realise that the idea of co-operation really works. As stated by one of our interviewees:

"As a surprise to many; today our CEO is extremely committed to the foundational ideas

and sees rewarding customers as the starting point of this operation, he thinks that it is what we should be doing. And it is clearly manifested in all his work that he does not just manage any company, but a co-operative with co-operative premises."

Finally, what is probably most peculiar is that in S Group it is the CEO that is typically considered responsible for promoting a viable governance system (i.e., making sure that the voice of membership is heard through administration and acted upon). Further, consistent with this idea, it is reported by our interviewees that many of the co-operative CEOs have been demanding accountability in 'co-operativistic' terms (i.e., to be judged based on the congruence of their action with the principles and values of modern co-operation).

Challenges to direct influence

It is maintained in our data that members of S Group co-operatives have a number of ways to use their voice more directly than through the administration. In other words, they may give feedback of the co-operatives' output to the personnel or management (cf. Saxena & Craig, 1990; Hirschman, 1970). Our data does not support to Cook's (1994) belief that members of co-operatives would be exceptionally active in giving feedback. Instead, it is reported by our interviewees that S Group co-operatives have acknowledged a need to encourage members to direct use of voice. As described above in the discussion of using voice via administration, a great share of members are unaware of their ownership. Thus, the motivation for direct use of voice referred to in Jussila et al. (2008) is unlikely to be aroused.

It is put forward in our data that S Group co-operatives have pursued overcoming the challenges to direct influence by encouraging the members to use their voice and also by making it also easier to give feedback. As a result, there are several ways for members to give customer feedback. They may use the conventional channels, such as oral notions during association and/or literary remarks via feedback boxes, where one may choose to stay anonymous. The members may also use the Internet, which is becoming more and more important channel of feedback (i.e., technological development and associated cultural change seem to be lending a helping hand here as well). Yet, according to our data, the huge potential of new technologies has not been recognised and utilised to the extent it should be. As stated by one of our interviewees:

"I have noticed that my son seeks information of co-operatives' services from Internet… the system should be developed so that while you are on the site you could give feedback.."

It is maintained in our data that by utilising the potential invested in certain technologies, S Group co-operatives could achieve sufficient improvements in representativeness of those active in their direct use of voice. What is also implied in the above quotation, especially younger members have been passive in the past and their voice might be better mediated to relevant co-operative actors if the Internet was appropriately used to promote it.

S Group co-operatives have also organised committees for feedback. In a typical customer committee meeting, the manager of a business unit and participants selected among regular customers come together to reflect upon the operation of the unit (e.g., a store). According to our interviewees, ideal customer committees are compact and represent the users of one particular business place (i.e., representativeness is seen as essential here also). Further, a much criticised model of committees is one that includes members from different places of businesses. As put forward by one of our interviewees:

"When there is one person from every Sale [a chain of stores] from the whole operation area…I have heard that the committee functions so that person from certain Sale says that we have this and that and another person from another Sale says that do you have this, we don't have it, so it is too fragmented and from too different areas…it loses its significance and the wishes of the members do not come true" (brackets added)

The feedback provided by the multi-unit committees is seen as less likely to have impact on operations and, thus, it is also likely to be considered less meaningful by the members.

While the above ways of influence may be used by customers in any form of business (cf. Hirschman, 1970), it is maintained in our data that due to the combining roles of customer and owner, the personnel of co-operatives regards (and is expected to regard) member-feedback with particular care and respect.

Summary

Chairpersons of S Group co-operatives' supervisory bodies speak of a variety of challenges to governance both in terms of market control and voice dependent mechanisms. They also identify several more-or-less efficient means to overcoming those challenges. Table 2 summarises the challenges and the means for overcoming the challenges as they are discussed in our data.

Table 2. The challenges to governance and means to overcome them

Influence via buying behaviour

- Insufficient possibilities for expressing dissatisfaction with exit – resulting from imperfect functioning of the markets
- Members' reluctance to influence via exit – resulting from their affective commitment
  - → The usage of advanced customer data systems to acquire real time information of members' buying behaviour
  - → Conduction of studies to predict the members' future needs

Influence through voice

Indirect influence:

- Member passiveness – resulting from members' unawareness of ownership rights and/or efficacy disbeliefs
  - → Usage of representative body – supervisory board – administrative board – governance structure
  - → Active encouragement of members to vote, provision of information about co-operative business and the members' rights, declaration of political independence, and increase of monetary compensations for participation
- Poor representativeness of elected officials - resulting partly from passiveness
  - → Division of operation area into election districts, evaluation of representativeness with demographic criterion, avoidance of political listing of candidates
- Indecisive goal setting - resulting from members' conflicting interests
  - → Guidance of elected officials towards acting on the basis of interests of the whole membership instead of some particular group of members
- Poor control over the management – resulting from lack of appropriate performance indicators and/or incompetence of elected officials
  - → Usage of performance measurement criterion acknowledging the special features of co-operatives and making it visible to members (i.e., in order to enable evaluation of performance)
  - → Sufficient monetary compensation to attract the best candidates, education of representatives, careful recruition and socialization of top management

Direct influence:

- The amount and representativeness of members providing direct feedback
  - → Making it easy to give feedback and encouraging members to use their voice directly.

As it comes to market control, the imperfect functioning of Finnish retail markets is considered to erode the potential of exit in some areas of operation. 'Feet voting' may not be viable when the co-operative is the only provider of certain goods and services in particular area. While technology and culture-based broadening of substitution area as well as newcomer(s) are seen as positive developments considering control via market, S Group has pursued enhancing market control by employing advanced customer data systems and by conducting studies to uncover and predict members' needs and to adjust operations accordingly. By giving the wheel to members, the co-operatives help them steer their businesses via market even if the members are reluctant to use substitute service providers due to affective commitment to their co-operative.

In the area of influencing through voice, S Group has tried to overcome the challenge of member passiveness with usage of a representative body –supervisory board – administrative board –structure. It increases members' influence possibilities as it multiplies the amount of people participating in decision-making and provides members with a possibility to vote in co-operative elections. The use of such structure along with active encouragement of members to vote has led to relatively high turnout percentages in many co-operatives. Yet, the overall majority of members in S Group still participate in no other way than in the role of a service-user. This was explained by members' poor awareness of their ownership and associated rights, association with communal democracy instead of business, and too little personal rewards expected from taking the participatory course of action. These challenges are fought with active provision of information about co-operative business and the members' rights, declarations of political independence, and increase of monetary compensations for participation.

The last of the above means is also considered to promote representativeness of elected officials, which is another challenge to governance. Another means to overcome the challenge of representativeness is the division of co-operatives' operation areas into election districts from which members are elected to representative bodies and supervisory boards in relation to members who live and work in that particular area. Also profession and sex are considered as relevant criteria. Despite of the efforts to promote representativeness, it is considered that there remains some distortion in administration towards looking after the co-operatives' (the collectives') long term interests as opposed to members' short-term interests, domination of elder as opposed to the younger generations and men as opposed to women. In addition, it is maintained that political listing interferes with representativeness.

The distortions in representativeness are manifested in goal setting, another challenge to governance. It is maintained that sometimes the prosperity, growth and continuance of the co-operative business are overemphasised. This is not only an issue of representativeness, but the fact that the administrators become identified with the top management and, thus, are more willing to accept investments in growth as opposed to substantial refunds to the members. Attempts to overcome this challenge involve guidance of representatives towards acting on the basis of interests of the whole membership instead of some particular group of members.

The challenges of performance measurement are not strange to those occupying confidential posts either. The merit payments are based on both short- and long-term objectives and criteria such as profit, process efficiency, customer satisfaction and employee satisfaction. Also market share and members' share of all purchases are used in order to capture some of the key elements of the co-operatives' mission. Yet, the measures used to evaluate the co-operatives' performance are not openly and accurately communicated to members, which is not consistent with the principles of good governance nor helpful in terms of promoting the members' sense of ownership. In other words, even if the measures were sufficient, their use is unlikely to promote members' use of voice since the members can not keep track themselves (i.e., it is the privilege of top representatives only).

Competence of the members, occupying important monitoring, controlling, and decision-making roles, is also a challenge in S Group co-operatives. As it comes to the representative body and the supervisory board this is seen, in part, as a result of the irrelevant criteria members use when deciding whom to vote. The increased monetary compensations are considered to help overcome this challenge as well as the other challenges depicted above since they are believed to attract candidates with better qualifications. In addition, the elected representatives are given education on corporate governance and co-operative business. The latter is most relevant as it comes to occupying a position in the administrative body. If the competence falls short, it sets the stage for unresisted dominance of the CEO – especially since the CEO is (by regulation) also the chair of the board. However, it is maintained that the CEOs are 'co-operators' and, thus, they will not use their power to silence the voice of the membership or to deviate from interests of the membership. This is because S Group co-operatives pay particular attention to the recruition of top executives. The trust in CEOs has been strong enough to let them take on the responsibility of looking after the viability of governance systems.

Eventually we come to direct influence. It is maintained in our data that the members may give feedback of the co-operatives' output to the personnel or management during association or via feedback boxes, customer committees and/or the Internet. The membership is not considered to be exceptionally active in their direct use of voice, which is seen a result of their poor awareness and sense of ownership. S Group co-operatives have pursued overcoming the challenges to direct influence by encouraging the members to use their voice and also by making it also easier to give feedback. Their hope is that Internet will eventually help straighten especially the distortion there is towards the elder members in the representativeness of those active in direct use of voice. Finally, even if the members are not more active in their direct use of voice than are customers of other organization, it is put forward in our data that, due to the combined roles of customer and owner, the co-operative listen to the voice and acts upon it more carefully than other organizations do.

Conclusions

While extant literature on governance of consumer co-operatives (e.g., Chaves et al., 2008; Spear, 2004) focuses mainly on indirect influence via administration, our findings enforce the idea that members' influence via buying behaviour and direct use of voice should be considered as central features to governance of consumer co-operatives (cf. Saxena & Craig, 1990). The combination of customer and owner –roles provides consumer co-operatives with opportunities to develop market and voice dependent mechanisms that allow close and intense governance. However, utilization of such opportunities requires deep understanding of what consumer co-operation is all about and awareness of ownership rights both among the personnel and management as well as the membership. In other words, efficient and effective governance is anything but axiomatic. As our study indicates, there are several challenges to governance of a consumer co-operative. However, although our study does not provide comprehensive solutions, it does indicate that many of the challenges can also be overcome, even if it may require expensive investments.

We hope that our study encourages researchers to tackle on challenges to co-operatives' governance both in Finland and other countries alike. Based on what is highlighted above, the channels and means of feedback could offer an interesting topic of investigation. For example, a questionnaire to co-operatives' customer relations managers could give us valuable information on the ways members are directly influencing the businesses of their co-operatives. It is also evident that the challenges of representativeness of those using or mediating the members' voice remain to be areas to which more academic efforts must be directed.

Considering that the owners are consumers, we wonder if consumer marketing scholars could come up with relevant new criteria (e.g., some used in segmentation) according to which representativeness could be better evaluated and achieved than with the criteria that are contemporarily in use. In addition, accounting scholars could take on the responsibility of studying performance measurement in consumer co-operatives in order to come up with practical and theoretically appropriate measures to evaluate performance of consumer co-operatives. Based on our research the measures might serve their purpose if they were balanced between accumulation of collective capital and member refunds.

Finally, it is worth noting that our findings speak for governance policies that promote democracy but do not rely on categorization of candidates based on their convictions and reference groups in communal politics. Another issue that also emphasises the identity of co-operatives as business organizations is the compensations paid to members for taking on administrative duties. Our research suggests that viable governance requires compensations that are more-or-less comparable (up-to-date) with those paid in other firms. These are issues that need serious consideration among those in charge of designing governance policies and providing education on the topic.

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Surrendering the Co-operative Advantage: degeneration and the growth of managerialism in a post co-operative social enterprise

Richard Knight

Abstract

There is a substantial literature which investigates the process of degeneration and the emergence of hierarchy which can occur in co-operative organisations, but there is little published on the conversion of co-operatives to other forms of social enterprise, as opposed to adopting a commercial business structure. This case study of a home care organisation focuses on the change from a co-operative structure to a not-for-profit social enterprise limited by guarantee and the impact of its change over a six year period. The author argues that the failure of the co-operative was mainly due to the lack of involvement of the staff from the very beginning of its life, despite the goodwill and support from the community organisations involved in its creation. As a result of the lack of commitment and support from the care staff of the co-operative the management and administrative staff assumed control of the organisation and pushed for conversion which formalised their positions. The article concludes with suggestions on how support might be given to help staff understand and operate a care co-operative, based on examples from other successful care co-operatives of the period.

Key Words

Co-operative Demutualisation, Degeneration Thesis, Managerialism

Introduction

Since the 1980s much of the literature into the survival and management of co-operatives has taken the form of seeing how they fare when subjected to the pressures of a market economy and to what extent they have to 'degenerate' into a standard form of business in order to survive or grow (For example, Cornforth, 1985 and 1995, Fairclough, 1986, and Jefferis, 1988). In its simplest form, the theory of degeneration states that in order to survive in a capitalist free enterprise economy a co-operative would need to transform itself into a more conventional type of business organisation.

Since the election of a Labour government in 1997 there has been much greater attention to the establishment and legitimisation of social enterprises as a form of 'third sector' businesses, as enterprises which trade for a social purpose. Co-operatives have be classed as part of the social enterprise continuum (SEL, 1999) although, as Aiken (2002) points out, there is sometimes resentment at classifying co-operatives, which have distinct values and identity, as part of a wider 'amorphous' group of social enterprises. However, there is little in the literature on what happens when a co-operative 'degenerates,' surrenders its identity and values and becomes a more 'conventional' social enterprise. In this article an investigation is made into First Time Care Limited (FTC), an organisation which started as social care co-operative and converted to a social enterprise as a company limited by guarantee, and to evaluate the changes this had made the working practices and management of the organisation. An emphasis is given to the growth of managerialism in the new social enterprise, to investigate the extent that it has adopted structure and systems more prevalent of commercial organisations which override some of the initial reasons for founding the co-operative.

The Case Study

The organisation used in this study, FTC, was developed as a case study as part of a wider piece of research which was eventually published in 2001 (Knight, 2002). The field work was undertaken between 1997 and 1998 but the organisation later changed it's co-operative structure (in April 1998) in favour of a more 'conventional' social enterprise model, and in 2004 the researcher returned to FTC to speak to those members of the management team and workforce who were still there, to investigate their perceptions of the change and assess how the move away from the co-operative have impacted on the organisation.

Background to the Co-operative

FTC Limited was registered under ICOM model rules as a secondary co-operative in January 1995. The impetus for the creation of a care co-operative arose from discussions between a group of residents from the Kings Heath area of Birmingham and South Birmingham Community Care (SBCC) Limited, an umbrella organisation founded in March 1994 which oversaw much voluntary and contracted out care work in the area. The local residents were dissatisfied with the level of care available in the community but insisted that any new organisation must give priority for the employment to local people. The board of SBCC Limited, which consisted of representatives of churches, the Health Authority, Age Concern and other community organisations, acted as a steering committee for the new co-operative. There are certain differences in the organisation between primary and secondary co-operatives in care services which had impacts on control, discipline and benefits for the carers. Primary structures for co-operatives with members owning the co-operative are probably the most well known type of worker co-operative but in the care field ICOM (1998) had found secondary structures were favoured by 65% of care co-operatives. FTC Limited had chosen the secondary structure and this had impacts on the way work was organised. In a secondary co-operative, members are not employees of the co-operative but join it to acquire the benefits of membership. Once they pay the levy they gain the protection of public liability insurance, training and work given out by a central administration service. If they do not pay the levy, or break the rules in any way, they can receive verbal and written warnings, but if they still refuse to comply they can be excluded. Legal action might follow to recover unpaid dues. However, if members have already left owing money, or left taking some loyal clients with them, then the threat of exclusion is meaningless and existing members might wonder why they should bother to pay their share. The difference is basically that of the difference between a 'contract of service' and a 'contract for services.'

However, a key issue to note is that regardless of the structure adopted for the co-operative, the decision to create it was very much a decision of local community organisations in discussions with local residents, but there was no wider consultation process. Potential employees/members of the co-operative were not involved in these discussions and although SBCC intended to make visits to other successful local care co-operatives in Walsall and Shropshire to see how these were constructed, in fact no visits ever took place. The creation of the co-operative was very much the result of a 'top down' approach.

The carers were self employed and paid a proportion of their earnings, a levy, back into the co-operative to pay for centralised services, such as administration, insurance and care work assignments. When they carried out their work they were paid either directly by the clients or indirectly through the co-operative by Social Services, which was the more likely since 80% of the co-operatives' work was referred to them by Social Services. The levy worked out at £1.25 per hour, which was consistent with research findings by ICOM (1998).

Perceptions of the Co-operative

At the time of conversion to a social enterprise the co-operative had about 60 care staff on its books, only two of whom were full time, the others doing anything between 2 and 30 hours per week of care work. There were two full time management officials, the Administrator and Co-ordinator, who were paid for by SBCC Limited and this did create confusion over their roles in the co-operative. The Administrator admitted:

> *…It's difficult for someone who was not here right at the beginning to pick up on how it works, it gets very confusing…do I work for SBCC or do I work for the co-operative? I'm employed by SBCC but I do a lot of work for the co-operative - I do all their invoices…I'm employed by SBCC but I don't think that the idea has been thought through really – it is very difficult for anyone to understand it...(December, 1997).*

And the Chair admitted to difficulty in understanding how the co-operative was organised:

> *Until I started I hadn't a clue as to what a co-operative was, I now know what it means… it is supposed to be ours as a co-operative and it is ours, although that is not working out in practice obviously but when I first started I did not have a clue – I am still getting to grips with it. I understand more now but not a lot! (emphasis added) (Nov, 1997).*

The staff also had difficulty in understanding the role of the co-operative. One of the full time staff remarked:

> *I like working here…I don't really know what a co-operative is but I fit my work to suit my needs…I think I'm self employed but I'm not sure…(June, 1997).*

The flexibility of the co-operative in being able to provide carers to cover during the height of the holiday seasons also caused problems. First of all it meant that carers developed a utilitarian approach to the co-operative, simply seeing it as an instrument to pass out work rather than a different way of organising working life. Those carers who saw FTC Limited as a means of temporary or part-time work never established a continuity or routine which gave them a greater interest in the co-operative. Secondly, the carers, being self-employed, did not look upon each other as fellow employees with shared interests and so little fraternisation or meeting up after work took place. This in turn meant that the carers did not 'jell' together as a cohesive group and form a block which could articulate its own interests. According to the Chair of the co-operative..

As soon as you became a carer you were a member anyway of the co-operative just by being a carer - we have problems getting them motivated - Its kind of like I'm only here to work and get my money and go home and that was it - it really is a struggle (Nov, 1997).

The Administrator observed that:

The carers don't really understand what the co-operative is… and because they're working on their own out there, they don't tend to get together so they don't feel like a separate entity anyway (Dec, 1997).

As a result, after an initial bout of enthusiasm, it became extremely difficult to get carers to attend general council meetings of the co-operative. The constitution allowed for up to twelve members and they started off with five, but by 1997 there were only two members on the general council, neither of whom were founding members of the co-operative. It was virtually impossible to get carers to attend general council meetings at this time although a few did occasionally turn up to quarterly meetings. The difficulty in sustaining the interest of volunteers on the boards of non-profit organisations has also been identified by Rochester (2004) and his research had also indicated that the senior paid official in voluntary organisations sometimes undertook the work which should have been undertaken by the board. This was also true of FTC Limited where the Administrator dealt with work which the co-operative council would have handled, had it always had a sufficient quorum for meetings.

A newsletter was started up by the council members to keep carers informed and try to stir up interest, the Chair herself found that she was getting really disillusioned by the lack of effort of the carers…

The worst thing about it (working in the co-operative) is trying to get that to happen and getting people motivated. I find within myself because I know that they not interested I find I'm losing interest because I'm fed up of trying to get it going. When you've been banging your head against a wall for so long you get fed up of doing so (Nov, 1997).

The carers had little interest in the opportunities the co-operative structure presented for participation even when there were issues at stake in which they had an interest. When in 1996 SBCC Limited decided to raise charges by 50 pence per hour carers were in an uproar and complained that they should have been consulted on the increase. As the Chair remarked:

…And it was at this point that the SBCC Limited said that if you came to these meetings and run the co-operative in a proper manner these things would have been discussed before it got to this stage…(Nov, 1997).

Of the two members of the co-operative board who were left in 1997, one had been co-opted onto the board as none of the other carers wished to serve on the board. In an interview with this member (who was the youngest member of the co-operative), she stated that her role was simply to raise issues from the other carers in the same manner that a union representative or health and safety officer might, but she had no knowledge or understanding of what the co-operative actually was.

This apathy and lack of understanding was also expressed by others in the co-operative. There were two volunteers who worked in the office, and one of them remarked:

There's only two people on the board…they can't do anything anyway as the carers aren't interested…people here just want a job that fits in with what they want, they don't care about First Time Care as a business, they just want to get on with it…Would I serve on the board? What's the point? Even (the chair) is fed up of it…we don't control the money, we don't control the work anyway, so what's the point? The other group, SBCC, control the work and the contracts…I'm not sure of their relationship to the co-op, but it (the co-op) doesn't seem to have any control…(May, 1997).

The Administrator also agreed with the lack of motivation amongst the carers:

They're not just interested. The only time they'll ever say anything is if something is done which they didn't like, but then they've been invited to a meeting to discuss it and they've not turned up but then, because action has been taken or whatever, and they then cause havoc. You try and *say well you didn't bother turning up so what are you complaining to us for? (Dec, 1997).*

These problems may have been exacerbated by the fact that the organisation of the co-operative was very 'top down' in approach. Although the idea for the care service was a grass roots one, it was SBCC Limited, acting as a steering group, which organised its creation as a co-operative, so the people who designed the service and the people who ran it were not the same. Emerson (1989), in his study of the Neighbourhood Textiles co-operative, remarked that the people who have a right to information in the co-operative (the worker members) do not have this information, and lack the ability to ask effectively for this information from the steering committee. This is especially true when, as in the case of FTC Limited, the majority of the workers were part time with less outside work experience, and may not know what information to ask for.

This could mean that the worker members might not have the same sense of ownership of the co-operative compared to if they had been involved in the beginning. With regard to Neighbourhood Textiles Emerson commented:

With one or two exceptions the worker-members never 'psychologically' owned the enterprise: the Steering Committee set it up, the managers took over some of the responsibilities from the Steering Committee, and the Steering Committee held on to others. They (the workers) were not asked to put money in - just to turn up at meetings which other people were seen to control (1989, p.63).

A similar problem existed at SBCC Limited. The carers were not involved in the creation of the co-operative, and the division of responsibilities between the co-operative and SBCC Limited was not well defined. The managing of the day to day business of the co-operative was carried out by people appointed and paid for by the SBCC Limited. In this context general council meetings might been seen as irrelevant as little control could have been exercised that way.

The End of the Co-operative

The official reason for the change in status of the co-operative to a conventional limited company was because of the introduction of new rules for quality control instigated by Social Services. By 1997 rumours were circulating at FTC Limited that Social Services would only allow new contracts to organisations which directly employed staff, so the co-operative and SBCC Limited were becoming aware of the issues and considering the options. In actual fact, according to the co-ordinator, when the new quality assurance rules were introduced by Social Services in 1998, they did not debar carers from being self-employed. Birmingham Social Services were still discussing a final version of their quality assurance procedures for outsourced and franchised operations in 2000 so alterations could still be made. These controls could mean that a carer would have difficulty in being given self-employed status by the Inland Revenue, so for ease of control needed for quality assurance the organisation might as well employ carers directly. According to ICOM (1998) although the majority of care co-operatives were secondary or 'agency' in structure there were areas of the country where Social Services would not accept care providers created on this basis. In addition, some Inland Revenue offices had difficulty in accepting employees of secondary co-operatives as being self-employed. Thus Birmingham were not acting unilaterally but remaining consistent with other areas of the country. However, Birmingham Social Services would not do what other Social Services departments would do, which was to collect invoices from individual carers. This was done by the co-operative centrally. Birmingham had instituted an accreditation process for care contractors in preparation for a future national legal requirement. The 'carrot' offered to Social Services was that instead of an arbitrary allocation of hours to the co-operative a set amount would be allocated, on a monthly or quarterly basis, which would help stability and planning.

The unofficial reasons for the conversion were more concerned with the lack of interest shown by the carers in the co-operative, the problems in administration and the duality of structure with SBCC Limited. This could be why one obvious solution to the problem, the conversion of the secondary structure to a primary co-operative directly employing carer members, was not considered either by the co-operative or by SBCC Limited. The latter wanted to remove the two-tier structure and employ the carers directly, and those carers who objected were concerned about being employees and losing their self-employed status. As such, the structure of the organisation was irrelevant as far as they were concerned. The Co-ordinator thought that if the co-operative had been set up as a primary co-operative in the first place it might have worked:

…I think that if they'd gone for that (a primary co-operative) in the first place, that might have survived, but as a secondary co-operative and then there was all the input going into the management services company and of course by managing the co-operative it was providing a management service... well that did not stand the test of time basically (May, 1998).

None of the outside organisations the co-operative dealt with expressed any opposition to the conversion. In SBCC Limited there was little opposition to the conversion, only the secretary to the board (who was a volunteer anyway) left because she was unhappy with the situation. The co-operative lost six or seven of the regular carers immediately as a result of the change, and some clients stayed with the carers when they left. The chair of the co-operative's general council had already left, the other council member had given up being a carer but had not officially been informed that she was no longer required.

The new structure was put into place before the Social Services accreditation process was started. The business also signed up for the quality assurance programme as extra funds were made available for it by Social Services. Interestingly, according to ICOM (1998) a survey of care co-operatives had shown that they regarded good training as a quality assurance mechanism. SBCC Limited had no immediate intentions to increase training beyond the NVQs currently offered and paid for by the City Council's Economic Development Department. The co-ordinator was in favour of the new Social Services regulations as it would help prevent exploitation of both carers and customers, as the new regulations involved outside visits to carers at work by Social Services' own staff, rather than by the co-operative's own staff, which was done on a rather haphazard basis.

South Birmingham Community Care – Six years on

One of the first things to strike the researcher on returning to the organisation after six years was the changeover in the caring staff and a new hierarchical structure, although the Administrator and Co-ordinator were still in post. In addition to the handful of carers who immediately left, almost 20% of the carers left within three months of the co-operative changing its structure, and the business in 2004 only had half the number of carers it had in 1998, and only three of the carers were from that time. The carers were now organised into teams under full time team leaders, although the carers still had an input over the number of hours they worked and the contracts they undertook. However, since the old co-op council disappeared the carers have no say in decision making, the only time their views are sought is when Social Services ask for feedback or there is an investigation over a complaint.

The overall amount of caring work undertaken by the business was slightly more than in 1998, so the carers, although still working part time, were working more hours on average than previously. One action undertaken by the new business in 1998 was a trawl through the lists of carers on their books, and those who had not done any work for a length of time were removed, and those who did very few hours were asked if they wished to remain with the business.

SBCC limited did not keep records as to the reasons why carers had left, but the Administrator suspected that it was due either that they didn't want the formality of direct employment or that it might upset any benefits claims by not being so 'free and easy' in working casual hours. The co-operative used to have problems with carers 'working and signing' but had not received any enquiries from tax and social security agencies since the carers became directly employed. The business received no letters or complaints from carers indicating that they were leaving because it was abandoning its co-operative structure.

The new business attempted to improve communication with the carers by introducing a new carer's newsletter, but the Administrator thought that communication between the office and the carers was still poor. One change was an increase in the number of the management staff, previously there had been an Administrator and a Co-ordinator (both persons still in post) and these were now joined by a Care Manager.

Because of the pressure of work, about half of the carers were working full time hours (more than 30 per week) and this did cause problems with absenteeism and stress, at any time up to 20% of staff could be off ill. The level of complaints stayed about the same as it was in the old co-operative, but as the amount of work being undertaken by the carers on average had doubled (the same amount of work but only half the carers) they would individually be facing more complaints, which also would detract form the quality of their working life. There were no extra payments for overtime, but time off in lieu could be taken. The business experienced problems in recruiting care staff, although at the time this was a problem nationally.

The majority of work undertaken by the business is still being referred by Social Service, although it had dropped slightly, to about 60-70% of work undertaken. The rest of the work was through private referrals. The systems for collecting fees from Social Services and for paying the carers had improved, and the cashflow problems which had existed with the old co-operative have disappeared. However, finance is still a problem – the original intention when the co-operative was founded back in 1995 that it should be self-financing within three years. It never achieved this and even in

2004 the business still was not self-financing. The Administrator remarked:

> *All profits - we don't make a profit, the funds we get at the moment from the work that we do go straight back to the carers in one form or another, so the core staff who run the office, we look to funds elsewhere to keep us going, we don't know from one year to the next if we've got a job! (March 2004)*

Other than payment from Social Services and private referrals, the business received money from ESF, some of which was used for training, but fundraising activities were undertaken to raise money for outings for clients.

There was a much greater emphasis on training in the new business, in order to conform with improvements in quality control promoted by the government and Social Services, so all carers had induction training in manual handling and patient handling, and there was the intention that all carers had NVQ2 in Social Care by 2005. The Administrator and Co-ordinator were both undertaking the Registered Manager's Award, as an agency needed at least one person in management with the award, and if the person was absent for more than four weeks and no other registered manager was present, an external registered manager would be required. The training was conducted both through external colleges and on-site, and there was much greater emphasis on training that there had been in the old co-operative.

The introduction of the team leaders provided more direction and co-ordination to the carers, as well as putting in place a career structure. Two of the team leaders had been carers in the co-operative, although posts were not reserved for them and were advertised externally. As direct employees of the business rather than being self employed under the old co-operative, the carers now had legal entitlements to holidays, sick pay and other employment rights, although as the carers now needed CRB checks there were delays between appointment of carers and when they could take up post.

Managerialism in SBCC Limited

According to Noblet, McWilliams and Rodwell (2006) since the 1980s there has been a global increase in the attempt to apply private sector managerial practices to a range of public service activities, although Pollit (1993) maintains that the assumption that private sector management techniques will solve the problems of public services has seldom been tested. Noblet et al assert that this adoption of private sector managerial practices for public services is commonly referred to as 'managerialism' and is designed to maintain accountability and quality while reducing costs. Managerialist reforms can involve radical structural, procedural, and cultural changes that might have a human cost for public service employees. The consequence for public service employees could be elevated levels of stress and anxiety, possibly reduced satisfaction and a decline in the levels of commitment to the employer.

Deetz (1992) also maintains that that managerial interests will always takes priority over the wishes of a community and democracy in an organisation. Small examples may include the setting of daily work schedules which form part of a wider picture where the interests of the management dominate those of the workers. Survival of the organisation takes priority over everything else, it, "operates against emancipation. It's motive is control, preservation and self-reproduction" (Deetz, 1992 p.233).

SBCC Limited was still predominately dependent on one particular source of funding (Social Services) is it had been in the days of the co-operative. Such dependence can be a driver for degeneration and in the case of SBCC it has also meant that it has to change to adopt the structures required by Social Services in order to still receive care contracts. Charlesworth et al (1996) had argued that Social Service departments themselves had been subject to managerial pressures themselves during the 1990s to move them away from a 'professional' to a 'business' culture. As care providers such as SBCC Limited were dependent primarily on Social Service contracts it would always be likely that they would feel the need to adapt their structures to meet the changes going on in Social Services. The Administrator confirmed that Social Services felt that under the old co-operative, with the carers being self employed, the organisation could not direct them to what needed to be done on particular care calls, and so it risked losing Social Service contracts without change. The carers lost the co-operative board and had less say in the running of the business, although they had appeared not to make much use of it when they had had it. They appeared to be more demotivated, as evidenced by higher absenteeism and difficulty in recruitment, and the Administrator confirmed that morale was low in 2004, and it was difficult to get carers to make extra calls to make up for shortages of work. On the plus side financial planning was more straightforward, despite SBCC still not being self financing, as the business's systems were made more compatible with those of

Social Services. Training had a higher priority in the new business than the older co-operative, although that meant new responsibilities for the management staff and put further requirements on the carers to get qualifications in order to continue to work.

SBCC Limited adopted new structures to bring in into line with the requirements of Social Services to enhance its quality systems and tighten control over its employees. Carers lost some control over the business and management power and roles have been enhanced. This growth in managerialism has addressed some of the short term problems the organisation faced but longer term issues concerning dependency on major funders still had not been dealt with.

Bland (1985) pointed out that 'top down' co-operatives were particularly prone to conflict problems which could result in the growth of both degeneration and managerialism. Promoters and members have different expectations and this can lead to lack of commitment towards to the co-operative by the workers who do not see it as their project, and the 'management' take control in order to ensure smooth running of the business. This in turn could lead to resentment and divisions. With FTC Limited the only major conflict between carers and SBCC Limited occurred near the end of the life of the co-operative. Carers opposed the change in status of the co-operative to a limited company, but even here resistance was limited to mumbles and resignations rather than active opposition on the general council. The refusal of carers to stand for election to the general council might be considered as a sign of passive resistance to the policies of the Management Company. According to the Administrator:

> *We were at one time having quarterly meetings and the general council were having monthly meetings - the general council was quite strong, there were five members to start with, they'd turn up at meetings but carers would not turn up at their quarterly meetings..., but at the last AGM (in 1997) there were only two people there so we had to call it again, but there still only two people there - they're just not interested… (December, 1997)*

In addition carers often built up relationships with their clients, and these could be seen as more important to them than organising the co-operative. When the co-operative converted in 1998 some clients left along with their carers. Co-operative members may not have wished to stand for general council positions because of their general unavailability as they were too busy with the actual process of caring.

Even so, the lack of interest in the co-operative structure and the failure to develop any opposition to the conversion may be seen as surprising. The majority of the carers were female, which was true nationally, perhaps because, as identified by Leat (1993) home care is rooted in the 'hidden world of women's work' and is considered to have low status. Caverhill (1994) maintained that when women were not able to pursue a professional or management career, a co-operative structure offered a greater opportunity to participate in and control their own jobs. In the conversion of FTC the carers did not fight to protect this structure, although all the management staff in SBCC Limited were female.

Conclusions

SBCC Limited still exists as a care provider in South Birmingham although it has moved to larger premises. It does not have any major local rivals, other local agencies offer nursing care rather than home care which is more expensive (nursing staff having higher qualifications and pay scales compared to care staff). A challenge now facing organisations such as SBCC limited is the requirement for carers to register with the General Social Care Council later in this year. While registration for the first year will be relatively straightforward, in later years there will be requirements for training and continuing professional development. SBCC Limited already found it difficult to recruit carers and imposing training requirements will make this even more difficult.

However, the view of the senior officials from FTC Limited in 2004 was that the co-operative structure, as it was set up, would not have survived the changes that the business was facing in 1998, and to adapt to the changing needs of the care market and regulation would require more 'top down' control than a 'true' co-operative would have allowed. FTC Limited had significant weaknesses in that the carers were not consulted in the creation of the co-operative structure or trained to understand or make it work, what little training they received in this area from Co-Enterprise was more concerned with operational issues. It was not unreasonable to expect that the carers therefore would have an ambivalent attitude towards the co-operative, and this lack of enthusiasm and motivation would help with the centralisation of power in the hands of officials. After all, if the carers wouldn't make the co-operative work and make decisions, then the appointed officials would make the decisions themselves.

One of the original intentions of FTC Limited had been to give employment to local people. While SBCC

Limited still attempted to give carers work in their local areas they recruit staff from any area, and (in theory at least) can assignment to work in any locality. The abandonment of a founding value, in favour of operational efficiency, again demonstrates the development of managerial over ‘community’ values.

In answering the question as to whether FTC Limited could have avoided degeneration and managerial control, consideration could be given to the local Shropshire care co-operatives operating at the same time as the founding of FTC Limited, and a case study of their formation has been detailed by Spear et al (1994). While drawing exact comparisons would be invalid because FTC Limited was operating with a different clientele and staff in localities of differing economic needs, FTC Limited did lack some of the advantages of the Wrekin (Telford), Bridgenorth and the Ludlow co-operatives. Wrekin and Bridgenorth had the support of a specialist care organisation known as the Shropshire Care Enterprise Agency. This was an initiative funded by the Department of Health which was able to provide support, funds and expertise to the new Shropshire co-operatives. No similar body existed in Birmingham which could provide similar services to FTC Limited. In the first year of operation the Economic Development Division of Birmingham City Council (EDD) paid for the salary for a co-ordinator and the Health Authority paid for a part-time administrator, but these people were employees of SBCC Limited and were part of the management services provided to the co-operative. This funding was not dependent on whether FTC Limited was a co-operative or had a different structure, but with Wrekin and Bridgenorth funding for posts and assistance were given on the basis that the organisations were specifically co-operatives.

The Shropshire co-operatives enjoyed political support both from the county Labour-Liberal ruling alliance and especially from district councils. They were concerned both by care provision and employment and gave preference towards co-operatives over other forms of business (Morris, 1996). In Birmingham the then Labour Council’s policy towards new firms was based simply on viability, and considerations as to structure were irrelevant.

In addition to a greater investment in training the Shropshire co-operatives also operated a mentoring scheme. Experienced carers were trained to act as mentors and guides to new carers and provide support and advice on self-employment and the co-operative to them. No such scheme operated in FTC Limited and so new carers would not have been able to pick ideas and knowledge of the co-operative from founding carers. The Shropshire co-operatives also brought management consultants to help provide business skills to the new co-operative management. Apart from the sessions with Co-Enterprise and limited NVQ training no such support was provided to FTC Limited. Mentoring and outside business advice on how to operate a co-operative could have been vital in raising and keeping the interest of the carers in keeping the co-operative alive.

Without support to enable the carers to understand and run the co-operative it was predictable that power and decision making would reside in the hands of the officials appointed by SBCC and they would develop systems to support direct control of the business, thus resulting in the growth of managerialism. Involving the carers at the outset of FTC in what they expected from the co-operative, training them in how to run the co-operative, and providing mentoring support to help them through difficult times could have helped provide an alternative to conversion. Without this the carers did not develop the sense of ownership of the co-operative which could have encouraged them to get more involved with running FTC Limited.

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Co-operative Innovative Strategy and Rural Transformation: empirical evidence from three Indian villages

S Rajendran

Abstract

The paper commences with a brief review of some ideas concerning human motivation for co-operation particularly focusing on community imperatives and possible solutions in the light of the recent onslaught of free market individualism. The research establishes through three village case studies in India that community and solidarity are very much in evidence. The cases show that innovation does emerge from economic necessity but is often best articulated from within communities and that solidarity with ones neighborough remains for many the best way to realize individual economic objectives.

Key words

Co-operation, Economic Necessity, Women, Dairy Co-operative, Fishing Co-operative , Innovation

Introduction

The traditional theory of cooperation has two basic variants, i.e., the casual and the formal. In its casual form, the traditional view is that groups are omnipresent and this is due to a fundamental human propensity to form and join associations. The formal variant of the traditional view also emphasizes the ubiquity of groups but attributes this to a different reason. It means that man has a `felt need`, or an urge to huddle together. In other words, people join together (cooperate) for a common cause and also fight (compete) with others for the furtherance of the cause as a herd or group. It implies there should be a `felt need` or a reason for people to come together. The seeds of cooperation occur universally and naturally in all societies and that it takes propitious environment for them to germinate, thrive and come to fruition. Exploitation of the poor by the rich and threat to survival due to some natural or man-made calamity are two of the examples of the propitious environment. The creation and fostering of such an environment is then a pre-requisite for emergence and survival of cooperation. Some naturally or autonomously flourishes. (Attwood and Baviskar, 1987 and Baviskar and Attwood, 1991). One of the earliest and renowned proponents of `The Carrot and Stick Proposition` is Mancur Olson who challenged a generally held view that groups of individuals having common interests usually work together to achieve them. Olson argues that "… unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self interested individuals will not act to achieve their common or group interests" (Olson, 1971:2).

For the cause of common, individuals join hands and usher the effort for community development. Broadly, this is attributed as voluntarism – an activity in which energy is given freely to benefit others. As Wilson (2000) defines "Volunteering is part of a cluster of helping behaviors, entailing more commitment than spontaneous assistance but narrower in scope than the care provided to family and friends" p215. Co-operative strategy is also by and large falls under volunteerism theoretical framework. The transaction cost theory explores in general terms that 'tie up' arrangements are made among various stakeholders to ultimately share the benefit accrued from the venture. Co-operatives as a nexus of contractual relationships among various stake holders including farmer-members, board members, managers, other employees, and client to achieve their ultimate goal of togetherness (Staatz, 1987). The classic Prisoners` Dilemma game is analogous to many situations that prevail in the use of Common Pool Resources (CPR) such as village grazing lands, common pool surface and ground water resources, marine fisheries, community forests (Singh, 1994:37-42).

The community centered co-operative institutions have strategically helped the people to economically and socially empower in many parts of the world. Across the globe, this institutional arrangement has helped the community to mutually help each other on crucial issues that have impacted on the society at large (Brett, 1993). In fact the state supported development programs have helped the community at limited scale due to lack of strong community involvement (UNDP, 1993). On the other hand, the community initiated movements like co-operatives have withstand the local conflicts and quarrels and in fact survive for longer periods to sustain the economic development

(Rajendran, 2007). In the era of economic liberalization, co-operation at all levels are making efforts to reorient their functions according to the market demands. There is a great hope on the co-operative sector due to the failure of the public sector and private sectors in some cases. The World Development Report (World Bank, 2008) emphasized the community driven development programs including co-operatives for attaining equitable and sustainable economic development.

However, the recent wave of open market economic policies has been viewed as a challenge to the very functioning of co-operatives especially in developing countries like India (GOI, 2001). While a number of successful co-operative models exist in India there are challenges in some co-operative societies, which need to be carefully addressed for effective functioning of the same (Dongre, 2004). Also there is a number of macro-level empirical studies on various strategical dimensions of the co-operatives and only a few field-based studies is available in India (Rajendran, 2008). While the Government of India has initiated and launched a number of welfare programmes to develop the rural society unfortunately not much has been achieved yet. The state supported welfare schemes, largely looked at as ‘Top Down’ and failed to achieve the objective of eradicating the poverty. Contrary to this, welfare schemes, launched and managed through ‘Bottom Up’ approach have significantly improved the economic conditions and thereby reduced the poverty. As an institutional framework the strategic approach of co-operative is making egalitarian society with overall equitable development Against this backdrop the present paper explores the strategical role of rural co-operatives in the broad domain of transforming the local marginalized communities.

Data Source and Methodology

This study exclusively depends on field level data collected from members of co-operatives and non-members in some cases for a comparative purpose. Structured schedules were employed for collecting household data. In addition, village elders, youth and co-operative officials have also been met for getting their perceptions. Simple statistical with diverse strategic approach tools have been used for analyzing the data. There are three different co-operative case studies, used for a detailed discussion. The first case is related to two Multi Purpose Women Co-operative Societies (MPWCS) in Mysore district[1] with 48 sample households; second case pertains to six dairy co-operatives (Kolar district[2]) with 274 sample households and third relates to two fishermen co-operatives (Nagapattinam district[3]). While data for the first two cases pertain to Karnataka state, the third case is related to Tamil Nadu state. These two states (provinces) are moderately developed with regard to co-operatives and other socio-economic indicators. Since both states do have by and large similar socio-economic and demographic features the results drawn from the analysis may be applied for similar regions in this part of the Indian sub continent. This paper is divided into four sections. The first section deals with introduction. Second section is devoted to methodology and data source. Third section gives an account for analysis and the summary and suggestions are presented in the last section.

Analysis and Discussion:

Mysore Case Study

The main strategic approach of MPWS is to economically empower the women through co-operative organization. The two villages in Mysore district are moderately developed and women are fairly progressive to device various developmental strategies including co-operative task. Here in these villages, agrarian economy is the main stay and farmers cutting across their size class (land holdings) are keen in involving themselves in the co-operative societies (Table 1). However, comparative analysis has been made between members and non-members for clear understanding of the influence of co-operatives.

The demographic details indicate that the member households are better in terms of literacy, per household asset value and area operated. This would possibly influence the income earning capacity and other social status in these households. Having more assets provided enough economic security to the members for availing institutional finance from the co-operative agencies. It is a Himalayan task to avail credit from formal sources – due to higher rate of interest - ranges from 12 to 15 per cent (whereas in the co-operative sector it is 12 percent), more formalities and paper works – and hence co-operative credit is a viable and alternative source of credit for millions of farmers in India and the Mysoreans are not exception to this.

The next aspect is the income generated from the selected households and such details are given in Table 2. Members and non-member households could generate income from diverse activities including dairying.

Table 2 provides information on the gross annual income generated from different sources as revealed

Particulars	Members		Non-members	
	Small	Large	Small	Large
No. of households	16	8	18	6
Average family size	6.05	6.28	5.02	5.14
Literacy level in percent	33.25	55.74	28.89	47.83
Total population	61	28	62	20
Per household operated area in acres	4.22	7.46	4.40	8.28
Average asset holding in Rs	63632	188560	40450	174020

Table 1. Profile of the selected households in Mysore District

Sources	MPWCs members			Non-members		
	Small	Large	Average	Small	Large	Average
Agriculture crops	12830	31652	22241(27.2)	9604	22547	16076(36.0)
Sericulture	3986	13683	8835(10.8)	2657	9793	6225(14.0)
Agriculture labor	1680	-	840(1.0)	2940	840	1890(4.2)
Dairying	24820	15513	20167(24.6	9308	6205	7757(17.4)
Salary	-	4000	2000(2.4)	-	5000	2500(5.6)
Trade and business	-	8260	4130(5.0)	-	6256	3128(7.0)
Tailoring	14600	15330	14965(18.3)	-	-	-
Othersï	6250	11220	8735(10.7)	5820	8240	7030(15.8)
Total Income	64166	99658	81912(100)	30329	58881	44605(100)

Table 2. Average household annual income (in Indian Rupees) in Mysore District

Note: Numbers in parentheses indicate percentage to total household income. Income from others include brokerage etc.,

by the member and controlled households. The member households belong to MPWCs generated more annual income (Rs. 81912) as compared to non-member households (Rs. 44605). A cross sectional analysis on sources of income reveals that member households earned more income from sources like field crops, dairying, tailoring, other sources, sericulture, trade and business, salary and wage earnings. On the other hand, households belong to non-member category earned more income from agriculture, dairying, others, sericulture, trade and business, salary and wage earnings. Nonetheless, per household income from different sources for the member and non-member categories depict that former group (member) of households received more from agriculture crops, sericulture, dairying, trade and business and others. In fact there is no income from tailoring source for the non-member category of households as this activity is carried out only from the members of MPWCs. By and large a comparative analysis across landholding categories shows that households from member categories earned more income from all sources, which depicts that members in large size holdings do generate more income. This, as per the villagers is that some family members in these households are employed in organized sectors.

The foregoing discussion clearly reveals that members in co-operative societies earned more income from different income earning activities. This is due to the fact that MPWCs have given a platform for their members to understand new frontiers of developments in different economic activities. For instance, during the field survey it was pointed out by the cooperators, the members of MPWCs have exposure to new farm production technologies and knowledge of the farm - input - subsidy and avenues for proper product marketing. Thus the innovative approaches increase the productivity in agriculture and to get remunerative price for their products. Also the management initiative of MPWCs to organize the members for training in tailoring has generated a sizeable income, which would have resulted in increasing farm income subsequently.

To an extent the women members empowered themselves in financial matters like investing on farm

Details of Assets	1999		2005		Percentage Change in 2005 over 1999	
	Member	Non-Member	Member	Non-Member	Member	Non-Member
Implements & machineries	4717	4833	6015	5335	27.52	10.39
Livestock	3875	3394	8800	6250	127.1	84.15
Residential buildings	27200	25500	59500	55500	118.75	117.65
Tractor, trade & commerce buildings	24000	8781	42781	32250	28.25	26.73
Consumer durables	3040	2603	9000	7900	196.05	203.50
Total	63332	68579	126096	107235	99.10	56.37

Table 3. Per household value of assets in rupees for two periods in Mysore District

based assets and raising newer crops and Asset holdings of the selected households have been furnished in the table 3. It is to study the impact of asset position of households between two points of time. Most of the members joined in MPWCs in 1999 and hence it is decided to estimate the impact of asset holding at 1999 price level.

At aggregate level, there is an improvement with regard to the possession of asset holding on both sets of households. But the increase in 2005 over 1999 is found more for the member households - almost doubled. Precisely, non-member households consolidated their asset position with regard to consumer durable as compared with member households. In both sets of selected households, the change is less with regard to investing on agriculture implements and machineries thereby demonstrating the fact that capital formation is less.

The above table also gives some interesting observations with regard to the distribution of assets in the selected households. The average asset value of the member household was Rs. 63332 in the year 1999 and it doubled to Rs.126096 during 2005. However, the non-member category of households also improved their asset position but in lesser magnitude. For instance, such households had Rs.68579 worth of assets in 1999 and it increased to Rs.107235 in 2005. By and large member households obtained more income from co-operative society based activities like dairying and tailoring. An important fact is that albeit the asset value of both categories increased, members of MPWCs improved and consolidated their asset position between these reference periods. In other words, the women members could improve their asset position. Involvement in co-operative framework has enabled the member to strengthen their economic base. Perhaps, the basic strategy of co-operative system - economic empowerment has paid dividend in the sample area. The asset value of livestock, residential buildings, tractors, trade and commercial buildings and consumer durables found more from women members. The member categories could improve their asset position, perhaps from the income generated through the co-operative system of social-economy. Followed by this the next case on dairy enterprise is analyzed hereunder.

Kolar Karnataka case study

The second case of rural co-operatives and transformation is related to dairy sector. Field survey for this was done in a drought prone economically backward district – Kolar – of Karnataka. Though it is a backward district, it produces around 20 percent of total milk in the state. The co-operative institutional arrangement is attributed as the key element for this success. All selected (270) dairy farmers are members of dairy co-operative societies (DCSs). The DCSs, in association with state animal husbandry department periodically undertakes various dairy development programmes and in this section the services rendered for the dairy farmers have been discussed. The department of animal husbandry of the Karnataka State Government has a number of cattle development programmes in operation, which are aimed at maintaining the productive efficiency of animals, by providing veterinary medicines and treatment to the animals at the producers' doors. The respondents agreed that DCSs provide veterinary facilities. To capture the perceptions of the dairymen an investigation was done and though the response is encouraging on some counts it is not so on a few as listed in table 4.

The management of dairy enterprise through co-operatives is a unique feature in the selected villages. Little more than 17 percent of the milk producers complained about irregularity in extending veterinary

Statements	Size of landholdings					
	Landless labourers N=42	Marginal farmers N=72	Small farmers N=76	Medium farmers N=60	Large farmers N=20	Overall N=270
Responses on veterinary facilities provided by society	100.00	100.00	100.00	100.00		100.00 (N = 270)
Complaint regarding veterinary facilities						
a) Irregularity in extending veterinary services.	2.38	22.22	26.32	11.67	10.0	17.04
b) All medicines are not available and proper treatment is not provided at timely.	30.95	9.74	11.84	11.66	---	13.33
c) No complaint	66.67	68.06	61.84	76.67	90.00	69.63

Table 4. Veterinary Services by DCSs across size classes in Kolar District

Note: Data show percentages to total landholdings in each size class.

services by DCSs. The break-up of the farmers who complain irregularity in providing veterinary services by landholding categories are; landless labourers (2.38 percent), marginal farmers (22.22 percent), small farmers (26.32 percent), medium farmers (11.67 percent) and large farmers (10 percent). Further, nearly 31 percent of the landless dairy farmers expressed that all medicines were not available in the society and proper treatment was not provided in time as could be seen from the table 4. In order to induce farmers to join in co-operatives, to adopt new technical inputs and scientific dairy management practices and to maintain a communication link between the district union and the milk producers, a number of extension activities are organized periodically by the DCSs.

An important aspect in any community based development institution is an active participation by local people. Hence an attempt is made to examine the level of participation in the activities of DCSs. The foremost issue is the frequency of visit by the members

Particulars	Total (N = 270)
A) Frequency of visit to society for purpose other than sale of milk	
a) Regularly	29.20
b) Sometimes	44.10
c) Rarely	26.70
B) Society meetings attended	
a) Almost every time	62.58
b) Sometimes	26.32
c) Rarely	11.10
C) Type of participation in society meetings	
a) See agenda before meeting and made constructive suggestion	32.24
b) Occasionally rise questions and seek clarification	45.21
c) Remain passive observer	22.55
D) Outside agency offers higher price than DCSs	
a) Try to prevent outside agency to operate	62.89
b) Do not bother: continues to supply milk to the society	37.11

Table 5. Members' Participation in DCSs in Kolar District (in percent)

Note: Percent distribution refers to each item

Statements	Size of landholding					
	LL	MF	SF	MEF	LF	Overall N=270
A) Whether inputs frequently and easily available						
a) Yes	100	100	100	100	100	100
b) The rate of the feeds compared to other agencies						
a) Cheap	100	100	100	100	100	100
C) Is there any subsidy involved on feeds						
a) No	100	100	100	100	100	100
D) Provided inputs qualitatively						
a) Good	93	93	100	97	95	96
b) Average	8	7	---	3	5	4
E) The inputs provided by the DCSs are in favour of big farmers						
a) Agree	14	7	11	---	---	7
b) Disagree	62	62	80	100	100	79
c) No Response	24	31	9	---	---	14

Table 6. Opinions Regarding Feeds Supplied by DCSs in Kolar District

Note: Data show the percentages to total in respective size class for each statement.
LL = Landless labourers MF = Marginal farmers SF = Small farmers
MEF = Medium farmers LF = Large farmers.

to the dairy co-operative society. Nearly 27 percent (Table 5) of the milk producers rarely visited society except for sale of milk. About 44 percent of the milk producers visited sometimes and another 29 percent made visits more frequently. The members visited for society for many reasons like enquiry about the payment, inputs supply and to discuss on village matter with fellow members.

From this table it is noted that a considerable proportion of respondents (63 percent) regularly attended meetings of society. While 26 percent attended less frequently, 11 percent attended rarely. Some farmers were busy in farm based activities besides dairying and hence could not attend the meetings regularly. However, mere attending the meetings would not help and active participation in the deliberation makes a difference. Innovative and people centered issues are discussed and taken appropriate initiatives in the interest of the co-operative members in the selected villages.

An analysis on this aspect indicates that only 32.24 percent of the members read the agenda well in advance to prepare themselves to attend the meetings. A maximum number of 45 percent asked questions and sought clarification on the issues raised during the meetings. It was disturbing trend that around 23 percent merely attended the meetings and did not participate in the deliberations. Around 63 percent of households did prepare themselves to prevent entry of other private agency in the region for milk procurement. Thus the forgoing discussion clearly indicates that the sample households were keen in developing and managing their own dairy co-operatives instead of the presence of the private dairy agency. The expected fall out of the open market economic policies is the emergence of private players. As private dairy entrepreneurs are making a beeline to start new ventures, the strategy of the Kolar dairymen is different, who insist that the dairy co-operatives to be proactive to throw out private players.

Similarly most of the selected respondents were interested in availing basic inputs from societies and hence exhibit interest in developing such societies for sustainable dairy development. During the survey the respondents were also asked to give their opinions regarding quality of feeds, supplied by co-operatives. About 96 percent of the households reported that feeds supplied by DCSs were good quality. On the other hand, however, a small proportion (4 percent) reported that

Opinions	Agree	Disagree	Unknown/ Can't say	Total
The DCSs provide good opportunities for the farmers to interact with each others	67.0	4.1	28.9	270
Economic condition has been improving through participation in DCSs	55.2	4.4	40.4	270
The DCSs can excel in competition with private milk vendors	90.7	---	9.3	270
It reduces the caste tension in the village	93.7	---	6.3	270
DCS is the best tool for white revolution	98.1	---	1.9	270
The society maintains the records of every person properly	89.6	2.6	7.8	270
Through DCS members could know about economic dairy farming	23.3	44.4	32.2	270
In the name of fat testing the village DCS is cheating the farmers	1.1	73.7	25.2	270
Benefits of DCS are not reaching to poor farmers	13.3	64.4	22.2	270
Organizing DCS is a mere wastage of time and money	---	71.9	28.1	270

Table 7. Opinions Towards Working of rural DCSs in Kolar District

Note: Data indicate the percentage to total.

feeds were of average quality (Table 6). Policies on procurement of feed and sale are transparent and on co-operative lines and hence, the members prefer to avail the feed from the dairy co-operative societies. It is noted that this system is innovative and cost effective as the private traders sell (sometimes) spurious feed items.

Management of DCSs on an impartial manner is essential for sustaining the system. The respondents were asked if DCSs favoured large farmers. Around 14, 7 and 11 percent of landless labourers, marginal and small farmers respectively felt that DCSs favoured large farmers. About 14 percent of the sample households did not respond to this aspect. More often as expected the milk producers do have different perceptions with regard to functioning of DCSs on general issues. Therefore, an attempt was made to document the respondents' perceptions on more than ten issues and the details are furnished in Table 7.

It was found that though some of the milk producers were not happy with all aspects of DCSs, they were unanimous that the rural DCSs were the best agency for white revolution. Another aspect, which the respondents enthused was assured market for milk and remunerative price, offered by rural DCSs. According to the respondent households, DCSs helped in reducing social hierarchy among different communities as all the producers have to stand in a queue irrespective of the social[4] or economic status at the time of either delivering milk or receiving payment. The respondents were also of the opinion that the DCSs can compete with private milk vendors or other agencies. It is known fact that in the context of economic liberalization and globalization a large number of Multi National Companies (MNCs) may enter into the dairy market. However, the sample farmers perceive that the DCS would perform better and even excel in the dairy business. Hence, the strategy for procurement, processing and marketing should be highly professional and the members determined to adhered to these with letter and sprit.

A cross section of respondents and village youth in the study villages revealed that DCSs as catelystic agents have helped the farmers to avail various veterinary services, supply of feed and fodder and arrange field demonstrations. All these have helped the dairy farmers to voluntarily venture into doing business on co-operative lines. After having joined in dairy co-operatives, as the farmers reported, their income increased thereby the social and economic status.

In addition to dairy development activities the DCSs undertake a number of socio-economic development activities like funds for schools, contribution for village road development, village lightings were some of the developmental activities undertaken by the dairy societies. All the sample societies have built their own buildings from their reserve funds and most of societies have installed telephone facilities to call veterinary doctors in case of any emergencies. This was also very useful to village people for communication. All the respondents opined that the developmental activities by DCS were satisfactory. From the foregoing discussion, it is evident that the rural dairy co-operatives with strategic approach have enabled the members to improve their living standards in a drought prone district.

Nagapapattinam case study

The third case is pertaining to the role of fishermen co-operatives on the rehabilitation of Tsunami affected fishermen community on the east coast of Nagapattinam District. During December 2004 the Tsunami made havoc, where the poor fishermen were affected at large. The members of fishermen co-operatives along with local, regional, national and international level civil societies undertook a number of rehabilitation activities. In addition to members of fishermen co-operatives, a number of volunteers and officials have been contacted for first hand information. This section explores the strategic perspectives of the rehabilitation in Tsunami affected villages.

As is known, the Indian pluralistic society is highly networked with social institutions and however, the fabric has been shattered by tsunami and this is yet another task – molding fractured families – for civil society. There were two important tasks before hand; 1) Immediately establish families among those who lost their partners during tsunami and 2) to facilitate to enlarge families by restoring family planning operation. It was observed that young widows were successfully encouraged to remarry and many of them have started living happily now transcending across social and economic boundaries and barriers. Some couple after having two children opted sterilization[5] have lost their wards in Tsunami and now wanted to have off-springs now and realizing this with the active propaganda campaign of co-operative agencies and the generous support of the government such operation has been reverted. A cross section of beneficiaries was taken to multi-specialty hospitals in Chennai and other major cities for recanalization and NGOs and the government equally shared responsibilities. Local people reveal that this has started yielding results and a couple of women gave birth to children without any maternity related complications. A bird's eye view on such beneficiaries and their relatives reveal that their eyes are filled with brightness and face is shining as they are blessed with children thereby brought in huge shy of relief. The members of South Indian Federation of Fishermen Societies (SIFFSs) and local Self-Help Groups (SHGs) have played an important role in successfully convincing the affected people over recanalization.

Another social issue is related to desperation and local beneficiaries after losing their kith and kin during tsunami got compensation and benefits became addicted to consuming alcohol due to distress and loneliness. The psychologists and counselors have been invited from clinics and taken up intensive campaign, albeit the success level is low as admitted by cooperators. Simultaneously, innovative rehabilitation and relief work by civil societies have been extended to schoolchildren as well. A majority of the young school going children has become orphans and the government took special initiatives by all means to safeguard them. A cursory look in the field clearly reveals that dedication of teachers and hard work of students have all contributed to bring back the normalcy from worries and restlessness and it is surprising to everyone that students in the tsunami affected area did exemplarily well in the annual public examinations. Thus co-operatives and other third sector initiatives have helped in building the social engineering and dynamism on the community, which suffered heavily and of course this, will not compensate the mental and material loss and agony underwent by victims on tsunami devastated areas.

Meanwhile, mindset of survivors – children and aged – has to be mentally comforted from the shock, bad memories and horror escalated from the dreaded tsunami. In fact some co-operative societies in association with NGOs have made arrangements for medical team with psychologists and counselors to provide intensive trauma counseling. It was also reported that the shock led to many become diabetic patients and the pressure of blood levels rose beyond normal to some in the affected areas. The Bangalore based NIMHANS (National Institute for Mental Health and Nero Sciences) and an international agency – CARE (Co-operative American Relief Everywhere) have joined hands to provide counseling for stress, disorders and other health related complications to the affected from selected villages. Grassroots level volunteers from the local NGOs (came from different districts, States and other countries) have also independently helped people through counseling, dialogue, stage play and excursion to overcome the mental stress and agony. This was done with lot of love and affection from volunteers with full of commitment and determination as disclosed by local beneficiaries and senior district level officials including the Collector – Administrative Chief of Nagapattinam district.

Although the selected villages do not have farming activity, they did farm in the neighboring villages. The tsunami has resulted in depositing sands on the cultivable land thereby rendering crops to wither and the entire agrarian economy is under collapse. It is a known fact that the entire agriculture sector is under stress for quite sometime and the States and the Union government have been attempting to make it viable for sustainable economic growth. In fact the Situation Assessment Survey (SAS) conducted by the National Sample Survey found that there is a falling in income and expenditure in agriculture and non-agriculture activities in the farm sector and this has resulted in agrarian distress (Narayanamoorthy, 2006) including in the agriculturally developed regions and States. Thus the tsunami aftermath in the affected coastal areas will further escalate the distress on farm lands and farm business and hence voluntary agencies like the Tamil Nadu Organic Farmers' Movement and M S Swaminathan Research Foundation have been working to reclaim the soil to bring back the fields into normalcy and so far around 2500 hectacres of farm land has been reclaimed on coastal areas in Nagapattinam district. According to an official estimate around 8000 farmers – mostly belong to marginal and small farm categories – have been affected and around 9567 hectacres of land needs reclamation efforts. Since eco-friendly farm inputs are applied as boffins explained that the fertility of soil will be retained and the land can be brought under plough shortly. Very importantly on its part, the State government formed Tsunami Farmers' Self Help Groups (TFSHGs) to reclaim the affected soil and to treat it with gypsum. As the officials during the survey, reported that combined effort of rural co-operative societies and other civil societies alone would provide helping hand to the tsunami affected.

Conclusions

Empirical and theoretical evidences clearly depict that there is a vast scope for civil societies including co-operatives for transferring the rural communities in poor resource endowed regions with appropriate strategical approach. This is pertinent at times of sweeping open market economic policies, where the role of State is reduced in development activities in a greater scale. The case studies on the co-operative institutional framework in three districts of South Indian States illustrated the fact that co-operatives can play a major role in changing the rural socio-economic set up. While two rural co-operative frameworks enabled the members to empower economically, one co-operative society socially rehabilitated the tsunami-affected communities both emotionally and economically. Of course there are minor differences and conflicts in resolving some issues. But these can be settled down with active participation and fruitful across broad discussions among the members.

Based on the findings and observations a few suggestions are made for strengthening the rural co-operatives in the days ahead. The members are to be convinced on the advantages of co-operative framework. Frequent field visits and exchange programmes may be organized at local level to emulate useful and fruitful ideas among the prospective members. Successful co-operative models in respective regions may be given wider publicity during field demonstration for replicating the same. Active and progressive members are to be identified and rewarded with prizes and medals to serve as role models. Leading co-operative personalities without much political affiliation are to be brought to potential villages to mobilize members into co-operative network.

The officials do have more social responsibility and accountability to the community in general and members in particular. Mutual trust, cohesion and conviction by officials would help function the co-operative societies on smooth manner. Similarly, members and office bearers shall respond to the problems and issues more on proactive manner rather than passive observers. Periodically empirical research has to be conducted on the very functioning of rural co-operatives to bring forth the contemporary issues for modification/development. There is a greater scope for the co-operative model to transform the community in general and rural area in particular especially in resource poor fragile regions in the coming year with a proactive strategic approach.

Notes

1 Detailed methodology is in Rajendran (2007).

2 For methodological framework, see Ramakrishnappa (2002).

3 Methodological design is found at Rajendran (2006).

4 Due to heterogeneous social order in India, there exists socially uppressed, backward and forward

castes while the uppressed caste is looked down backward and forward castes are considered as high order.

5 The birth rate according to 2001 census in Nagapattinam district is close to 1.5 per 100 and this is attributed to the successful implementation of family planning operation.

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Business, Organisation, and the University

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Abstract

This paper is essentially a reflective account of the self-deceptive processes involved in curricular development and change. The context of our reflection is the assumptive world of business and the academy. The assumptive world of the authors, based on their extensive research and practitioner experience, is that in the end as far as curriculum development for management and business studies is concerned everything we hear is an opinion, not a fact and that everything we see is a perspective, not the truth. This subjectivity pervades the world of business and the world of the academy. The recognition of which leads both communities to gravitate towards the safety of numbers (conformity to which becomes a requirement for advancement in business and even if to a lesser extent in the academy) both in respect to their internal development agenda and in how they represent themselves to each other and to the wider world. This can cause major break downs when the assumptive worlds gets seriously out of alignment with the economic and political realities that lie as an earthquake fault line beneath the bubbling hubris of any superficial understanding of the "the market." Such situations result unsurprisingly in what is called a crisis for both the world of business and the academy that seeks to influence it. How to challenge the assumptive world ofthe business school could have been the tile for this paper.

Key Words

Assumptive World, Business Education, Management Education, Curriculum Development, MBA, University

Introduction

Global change has never been more pressing. Following the global collapse of confidence in the financial services sector and business in general; corruption, human rights abuses, environmental threats to the climate and a the problematic question of a sustainable resource its clear we either make changes ourselves or have change forced upon us. Any one of these issues taken separately would be sufficient reason for reform but taken collectively the case is overwhelming. The signs have been there for several decades. Yet in the very leading centers of research and teaching excellence in our top business schools world wide a re-examination of a business curriculum that in its values and principles has not changed in one hundred years.

Business Curricula

The curricula appear to swing between technological training and academic theory. There is little genuine focus on the central issue of the problem: the students' and faculty's assumptive world which drives the selection of the materials chosen for presentation as well as the point of view that will govern its transmission. In the pragmatic quest to achieve status within the academy business schools appear to have forgotten that the subject matter is not one cognate domain but a mixture of several areas including mathematics, economics, anthropology, sociology, psychology, logic and planning. Instead of seeking integrating values or themes or disciplines they opt for a simple form of reductionism that creates a mechanistic model of business that is further enhanced by the use of computers. This model dominates in all aspects of the curriculum in business education. The result is the use of a purely economic model as the driver with the self-interest seeking pleasure maximizing pain avoiding utilitarian economic man and women component making consideration of the "ethical" or "moral moment" improbable. Surely this missing element of a human and indeed creation-centered ethic can be identified as a root cause of the current global collapse of business confidence in the world. The reason may not be to do with inherent evil but rather the assumptive world of the key players and opinion leaders in the business schools and in the business world in general.

The basis of the assumptive world in general

If we recall that our social reality is "created" or constructed not "given" in the nature of things this pushes us into the post modern world where we need to find various approaches that might render education something more than either narcissism or pure mechanistic decision making. We need an education having as a starting point the obligation to challenge not reinforce the students and the teachers assumptive world. We need to understand the assumptive world as further expanded by Janoff-Bulman who suggested that the three most basic assumptions are: "the world is benevolent", "the world is meaningful", and "the self is worthy". (Janoff-Bulman, 1992, p.6). It is but a simple step clinically to move to argue that the individual person and the world are in a meaningful and not random relationship wherein justice, rewards and punishments occur not randomly but significantly.

The current economic collapse suggests that our curricular models (economic man; self-interest) simply do not work. If our perceptions are no longer supported by the world neither will our actions based on those assumptions be workable or relevant. This is the crux of our argument. Our assumptive world needs to be significantly modified and we need to change the way we go about doing business and teaching it. Whether the recession is over is a question not of fact but of perspective It may be over for the bankers but not for the unemployed and homeless. Whether climate change is a threat or an opportunity may depend on whether your Monsato Corporation seeking to justify genetic modification of crops to resist ultra violet rays from the sun or a Pacific islander watching the sea flood your home.

The effect of an analysis arising from contemporary ethical stances

The need to build in human centered perspectives requires us to challenge the assumptive world view that what is good for business – read big business is good fro the world. We need to understand that their are alternative reasons and critical methodologies. The danger clearly evident in the approach to business education and manifest in the continuing ascendancy of faith in technological solutions is making us blind to "the ethical message contained in being, a message that tradition calls lex naturalis, natural moral law." (Benedict XVI, 2008, p3)

We need to recognise first the diversity of the reality and then adopt the methodology with which to understand its' truth and follow this with the values that enable us to weigh the respective "truths" or knowledge in the interest of the common good. Below we briefly outline some of the alternative sources of knowledge in terms of the worlds of business.

Models of capitalism

We need to explore and debate the relative issues concerning the various modes of capitalism and market regulation. Alternative models of ownership also need to be explored. For secular no less than religious educators these questions themselves need being preceded and reflected upon within the context of the bigger question of who are we? And why are we here? Is nature merely a resource to serve our needs or do we have to recognise our dependency on nature not merely in economic but in spiritual and psychological terms? Challenging the positivist assumption of one best way recognising that different contexts, interests and communities may lead us to explore a wide variety of ways and to adopt a fare more pluralistic curriculum in the business school where purpose and values are reflected upon and challenged rather than merely assumed. The reintroduction of a Socratic methodology may help here and we perhaps should not have needed being reminded that such takes us back to the very roots of the university. Further its not good enough to simply know in theory we need to go beyond theoretical knowledge to ethical knowledge to know what is good is the mission of the university. (Benedict XVI, 2007, p7)

Below we summarise the central features of some of the alternative models of capitalism we could reflect upon in the business school.

American

Can be characterised as liberal, free market, anti-union, individualistic, and materialistic in its management culture. Strongly hierarchical, positivist and technological in terms of its decision-making culture. In general more concerned with the short term rather than long terms results.

German

Highly regulated labor-relations based on the existence of a strong participative culture and strong national/industrial trade unions. Prudential long-term view of investment with state supported heavy investment in training and developing human capital particularly in areas of craft skilled labor. German industrial relations is underpinned by a strong welfare state.

Scandinavian

Highly unionized, strong welfare system with participative decision-making at shop floor level in some sectors. Strongly people centered work culture. For example home to such experiments such as the Volvo autonomous work group and in Skandia the application of Intellectual Capital Theory (Edvinsson and Malone, 1997)

Japanese

Paternalist corporate culture, strong company loyalty, collective decision-making, very participative and quality-focused work force represented by company based but independent trade unions. Long- term investment and strategy adopted. Characterised by a male dominated management culture with a strong sense of seniority and respect for age that, notwithstanding does not act as a block to younger men when results are threatened. Developing and sustaining long-term relationships with supply chain partners is the norm.

The above sketches may be simplifications but we are not here concerned with a detailed analysis. Our purpose here is to merely to demonstrate the differences that exist in the notions of the market, the capitalist firm and its approach to people and to investment. These differences have significant implications for management and business culture and strategy that should be a matter for reflection and debate in the business school.

Models of Ownership

Likewise, with the question of exploring appropriate ownership models. Why do we take the joint stock corporation as the model? We don't dispute its relevance and dominance in the market but in terms of economic value added, employment and service provision there are many other valid ownership forms that all need managing and in various contexts need to strategise their approach to their market. Should the business schools business be simply focused on the dominant form of ownership model with the assumption perhaps that what is in the interests of this dominant form is in the interests of the economy as a whole?

Sole proprietorship

This form is often an important alternative to employment in adverse labour market conditions. It is very often central to the provision of local services and often highly flexible. Marketing is largely dependent on local networks with a strong informal presence. In various parts of the world however, sole proprietorships can be found running more substantial businesses and employing people.

Family business

This has many of the characteristics of the sole proprietorship in terms of its significance when labour market conditions are difficult for employment opportunities. The family business can also be important in the informal sector. Its flexibility in the provision of services and its community focus are often key features. But here again the model can be applied to relatively big business such as in the Greek shipping sector.

Partnership

Partnerships constituted in a legal form are by their very nature limited in size and focused on the delivery of professional services. Nevertheless such businesses can present substantial challenges as they grow. Other partnerships may be constituted to provide the full range of production and or service delivery although they will usually take the form of a private company.

Private

Individual entrepreneurs and agents for venture capitalists often prefer this ownership model but large family enterprises and non-professional partnerships will also use it. The private company is generally non-union, possibly paternalistic, but also sometimes crassly exploitative of labour. However, in this unpromising ownership model (from a business ethics stand-point) we can also point to a recent innovative social business the Economy of Communion Business (EOC) which has a highly socially ethical purpose and religious motivation. The E.O.C. has representative businesses in the Americas, Europe and the Middle and Far East. These businesses evolved out of the Roman Catholic Focolare Movement but include people of all denominations / religions and none. Their business purpose is to ensure unity and that no one is in need in their organisation and the community in which their businesses operate. (Gold, 2004) Generally they currently adopt a private limited company ownership model.

Joint-stock Corporation

This model is the dominant form of business ownership today. Ownership can change easily through trading in their quotable and transferable shares but they are often controlled by majority shareholders, sometimes to the disadvantage of the smaller shareholder. Globalisation provides opportunities but also threats to this form as trading in shares can push values of the company up or down. The need to generate a rate of profit acceptable to the global market for capital may lead to short-term perspectives and to practices that drift from unethical into the illegal, as we have seen in a number of business ethics cases over recent years. The multinational dimension also raises questions of fair trade, labour exploitation and environmental exploitation. These issues are being raised by a growing number of western and global "anti-capitalist" critics.

Co-operative

This is a very distinctive ownership model based on membership with non-transferable shares that translates into a single one member - one vote governance. Generally co-operatives form a social movement as well as an economic form of enterprise. They are very significant in the agricultural sector both in marketing and procurement. In the United Sates they have provided rural electrification and are substantial providers of sheltered accommodation for the elderly as well as student housing. In both banking and credit unions the co-operative movement is a major player in the USA and globally. One in three Americans banks with a credit union. There are substantial consumer co-operatives in the UK, Scandinavia, Canada and Japan. Workers co-operatives exist pretty well everywhere, the biggest being in the Basque region of Spain. Together the global co-operative movement is affiliated to the International Co-operative (ICA) in Geneva, The ICA remains the oldest and biggest Non Governmental Organisation (NGO) in the world with three quarters of a billion members. It has a developed social theory and self help strategy based on principles of autonomy, democracy, voluntarism, distribution of surplus according to use not ownership, religious and political neutrality, education, internationalism and community. This model is virtually invisible in the modern business school curriculum.

Mutuality

Mutual societies are to be found largely in the financial services sector such as insurance. They operate very much like a co-operative with their defining characteristic being that they may only trade with persons who are their members. Like the co-operatives they are virtually invisible in the business school curriculum.

Social Economy business model (or Third Sector)

This concept of social economy generally is reserved for the not for profit sector but often co-operatives that do make surplus (profits) for distribution to members are also included here. There are over 2000 Non Governmental Organisations (NGOs) operating at the global level with substantial budgets and organisational and management structures requiring global strategic management. The Charitable sector alone accounts for tens of thousands of national level organisations. Other special interest foundations such as preservation societies, artistic and cultural organisations; religious bodies, trades unions, housing associations are all organisations with often complex structures and with often complex goals and challenging environments within which to strategise presenting challenging management decision making and control issues. Their global social and economic impact has been recognised as long ago as 1992 by the World Bank (Hassan and Onyx, 2008, p1) If anyone doubts the relevance to business schools of the variety of organisational forms in the Social Economy they should consider their economic impact, the level of employment they generate, and their range of services and other economic value added produced. Their governance and management is extremely varied as a recent research study has with an in-depth analysis in the far east covering China, India, Indonesia, Philippines, Thailand and Vietnam. (Hassan and Onyx, 2008)

What should inform the business curricula?

Clearly the current interdisciplinary perspective needs to be developed. In addition to the heavy reliance on economics mathematics, accounting, law, technology, psychology, and social psychology we need to introduce more sociology, anthropology, political science, history, literature and philosophy. Why because clearly the assumptive world of modern management need to focus outside the firm at the environmental and social consequences of business. We need to free minds in modern management to be creative socially and environmentally and culturally. Management is not just about cutting costs and increasing revenues. A more pluralistic approach is needed, one that reflects the truth from many perspectives not just the stockholders truth. In particular we need to recognize the role of philosophy and particularly moral philosophy as core disciplines to engage with the agenda of challenging in a non-prescriptive manner the business school course members assumptive world. In particular we need to explore more profoundly what is the good in business?

How do we make faculty sensitive to pluralism and the various truths within it?

We need a 360-degree compass. We need to reflect on business education and management development from all the stakeholder perspectives when developing the curriculum. A pluralistic framework must aim to sensitizes students to the important contribution being made across the ownership and organizational spectrum of business and related organizations This will require a more experiential approach and a greater concentration on the ethical issues posed by the various perspectives.

Any start of a new Business Curriculum needs to recognize the primary areas on which it is built. We divide the curriculum into 3 primary areas:

Structured knowledge areas

Semi structured knowledge areas

Unstructured knowledge areas

One can think of the structured knowledge as the basics of a business curriculum, while semi-structured components are viewed as the accumulation of experience and structured knowledge. Unstructured knowledge is based on experience, structured knowledge, and affective or intuitive feelings as they relate to a business and its environment.

If the liberal economist orthodoxy suggests there are no boundaries to what may be commercialised perhaps the business curriculum can best respond by suggesting their are no boundaries as to how the commercial and non commercial organisation and management can be studied. The content across all three primary areas will need to include different philosophical positions, methodologies, case studies, business, but also social as well as natural and environmental geographies.

The new business curriculum needs to be Humanistic in its broadest meaning of human centred not the mere manipulative platitudes of the human relations schools softening the edges of the economics based disposable human resource. Without dispensing with the rigours of scientific method let us jettison the ideological perspectives within scientific management and recognise the rich variety of value based management approaches that exist or could be invented or reinvented. One central theme that needs to be reflected across disciplines, case studies and philosophies is a continuing reflection on the meaning and applications of the concept of the common good, sometimes developed into the concept of human good, (Hoyt-O'Connor, 2009) as understood in Catholic Social Doctrine and its central underpinning concept of solidarity. (Rajendra, 2009)

> *"John Paul II emphasizes the necessity of solidarity in discussion of the global common good. Solidarity is the virtue that must govern such interdependence in order to transform relationships of exploitation into relations ships of mutual respect." (Rajendra, 2009, p 407)*

The pervasiveness of organizational theory

We believe that if organizational theory is expanded to include organizational aspects to decisions, economics, finance, operations, psychology, legal, culture, analytical techniques, modeling, and planning a Twenty-First century curriculum in business would be more relevant in tomorrow's world than the way classical business course are taught today.

Organizational theory would create an additional unifying thread to the pot-pouri of courses that business students take today. It would serve to show that all business knowledge relates to the decision process that we expect our businessmen and women to make at tactical and strategic levels. This in the context of moral philosophy would eliminate the silo mentality that is so prevalent in today's business curricula.

The undergraduate curriculum - should be seen as an apprenticeship course of study. This view is important for a number of reasons. These include: setting realistic goals for the student; focusing students on processes; finally, broadening the undergraduate curriculum from the isolated silo vocational approach to a Liberal Education model.

Thus the graduate curriculum should be viewed and appreciated as a journeyman model. The base has been established. Structured decision-making and the application of rules within a sub-area are understood; the focus now shifts to semi-structured and unstructured decision making with a strategic planning view. Moving from a mechanistic to organic model of curriculum development. We call this an organic model for teaching because, as in any organism, the whole organism is really the result of the parts each taking on a specific function which creates the uniqueness of the organism.

As a result of this new teaching schema courses can vary from institution to institution, and not be held hostage by one text in the field. Yet the curriculum would cover, with different emphasis, the field of knowledge more completely. Institutions will now be able to create course structures that configure differently, consistent with the culture, the skills, the student body, and the framework of study that the institution wants and is truly relevant.

The authors believe that this 21st century model of University teaching is requisite for this age. In future studies courses will be developed that expound on this model of the organic curriculum and it will be explored for both Professional and Liberal Arts studies. It is also believed that the organic model has a positive effect on the business faculty, in that their skills are expanded to encompass new areas of study in order to more completely develop each area new or new approach to an established area of study.

Conclusions

We have indicated the broad contours not the details of the new curriculum. That is both desirable and given our approach inevitable. We must move away from the guru centred text, focused on the single business model and supporting a governing assumptive world. We in the academy must pursue the genuine search for reality within a truly global (in scope not just geography) perspective. The opportunity for a vast array of alternative curriculum becomes both possible and desirable. This new reality of pluralism, conflicting interests, the restraints and opportunities placed on us in our connectedness to nature will however, whatever the nature of the diversity, all need to be interrogated within a discourse that is both humanistic and concerned with ideas such as the common good, human good, and ethical reason. Only then can the assumptive world be challenged and a new reality perceived.

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Human Resource Management in Indian Co-operatives: some issues

Bhagwati Prasad

Challenges

In today's era of globalisation organisations are becoming increasingly competitive. Every organisation is involved in devising appropriate strategies for organisational growth and development considering the pulls and pressures of the market economy. The whole process is indeed dynamic. Various permutations and combinations are forged so that not only an organisation survives but it also grows in the process. Innovations of various types are the common norm for organisational growth. It is felt that the more you are able to innovate based on your creative energies, the more dynamic and productive you become.

For the countries in the world economy, the balance between knowledge and resources has shifted toward the former. This paradigm shift demands not only a new set of technologies but also the human capital has to be of a high level so that various options are explored and the organisation does not become static. Human Resource Development can be understood best in the context of facilitating innovation.

Human Resource Management (HRM): A Strategic Function

Human Resource Management today has a strategic function. It has strong linkages to the social and economic objectives of an organisation. The human resource policies must enable an organisation to achieve its goals. This can materialise only if the organisations gain sustainable competitive advantage through strategically managing their human resources. This can result in an enhanced performance level of an organisation. For this developing competitiveness in various fields based on the present context with an eye for future is very important. These fields are; recruitment, compensation, developing various career paths, designing training according to user needs, etc.

Infusing performance based culture in an organisation is a key component of HRM now-a-days. Organisations with a performance-based culture are successful. They acknowledge that their success is contingent upon the successful performance of their employees. They recognise that the ability of the organisation to carry out its mission and achieve results is dependent on the competition, innovation and productivity of its work force. People work to achieve goals, not rules.

Human Resource: The Paradigm Shift

The HRD's biggest challenge is to get best out of the people and the system. The potentialities of the people have to be explored, and the HRD efforts have to be directed in such a way that the over-all system is geared to strengthen an organisation. All this will lead to organisational effectiveness.

Viewed in the above background various supportive activities have to be initiated so that there is a definite shift in HR. Amongst these, internal customer orientation is pivotal. A customer when he is happy, spreads happiness. This means he attracts more customers and in a way he expands the horizons of an organisation. The customer base is not only increased, but it also becomes a sustainable process in which an organisation slowly makes definite strides. After a point the organisation achieves performance excellence which is a clear indicator of organisational growth.

Employers empowerment is also a vital component of HRD. This enables employees to make decisions about their jobs. This helps employees own their work and take responsibility for their results. This view takes cognizance of the belief that employees have inherent potential and they are primary source of enhancing productivity in an organisation. The employees feel self empowered to take control of their destinies. This shift in attitude is supported by the top managers who ensure the organization's competitiveness and employees' job security. They support employee initiatives and help them grow.

Why HRM in Co-operatives?

Attitude holds the key for the success of co-operative organisations. So HRM in co-operatives must revolve around this vital fact. Attituditional changes in leaders, members and employees is very important for a co-operative to surge ahead. The conventional forms of thinking have to be jettisoned as solutions have to be sought so that the co-operatives emerge victorious amidst tough competition in the market economy. The focus should be on :

Accelerating Economic Reforms

The process of economic reforms should not loose momentum if the reforms are for the organisation's benefit. The liberal economic environment for co-operatives is important for co-operatives because then only they can perform up to their full potentialities without unjustified controls. This also presents many opportunities to them for their growth and development.

Participation and Competition

The co-operatives today must participate actively in the development process along with other agencies. They must also forge effective collaborations in mutual areas of interest. At the same time they must maintain their competitive edge in maintaining quality in products and providing efficient services. An effective HRM policy taking into consideration these factors will be very important in this regard.

Emphasis on Professionalisation

At every level in the functioning of co-operatives, professionalism has now become the pre-requisite. The employees must be empowered to develop their professionalism so that they can not lag behind their counter-parts in other organisations. Professionalisation in co-operatives today demands that all the functional divisions must be well prepared to develop their specific plans for organisational growth with proper emphasis on manpower planning.

Practice Business Development Plans

Business development plans for co-operatives, particularly for those with business focus, are very important for succeeding in the market economy. Human Resource Management in this respect becomes crucial as the employees have to be sensitised to understand the business implications of an organisation. If the employees feel empowered to contribute to the business of an organisation through their creative energies, then an organisation can grow by leaps and bounds.

Managerial Effectiveness

Managerial effectiveness is another important factor in discussions on HRM. The various tiers of management have to be effective to deliver the goods. The strategies for them may differ, but every tier in management is important from a HRM perspective. If the top management is enlightened then the trickle-down effects percolate down to the lowest level.

The General Body at the top managerial level can play a pioneering role in strengthening a co-operative organisation. This is simply because General Body is the epitome of co-operative democracy at the highest level. The members have to be aware to understand the issues confronting their sector, and the organisation. They have to be educated through various innovative programmes which can not only clear their basics but also help them understand their vital role in the success of an organisation. Enlightenment of the members is also important for developing a forward looking vision which can prepare an organisation to meet the future challenges.

Board of Management

The boards of co-operatives should reflect professionalisation of high level. The board members must reflect top leadership qualities based on clear understanding of the issues of an organisation. The leadership development programmes in this regard have an important role to play. Emphasis here should not be only on theoretical postulates, but the field level realities based on the current trends with viable solutions must also emerge so that the board members may benefit from this. Collective decision making is an important determinant of strong leadership. Due to vagaries of modern economy, complexities in decision-making can be solved only through collective approach. At the top level, the Chief Executive has to be highly professional. A top level professional can understand the dynamics of an organisation and formulate effective strategies for its growth. He can also act as a huge motivating force in empowering the employees of an organisation.

The human resource policy for the middle level management must focus on appropriate recruitment with suitable placements. This is very important for developing the professionalism of middle level management. Identifying suitable person for a right job must be done in a most transparent manner with due regards to merit. The recruitment policies must shed a biased approach which can prove suicidal for the organisations. The HR policy must be clear-cut with a definite policy of guidelines as far as recruitment and placement is concerned.

At the lower level management the professionalism of the staff is vary important so that there is smooth functioning of an organisation, and operational hurdles overcome. For strengthening professionalism building up skills of employees is paramount. This can be done if there is proper performance appraisal which can lead to reviewing the performance of employees at regular intervals. This feed-back can be very important for devising HR policies which can lead to optimum utilisation of the productive capacities of the employees. Similarly, a definite promotional policy with clear-cut indicators can act as a good motivating measure for the employees of an organisation. Career planning for the employees is equally important as an incentive measure. As there is lack of awareness about career prospects amongst the employees, career planning for them will act as a good empowering influence. Similarly, job rotation is equally important to develop the all round capabilities of the employees. Training is the ultimate requirement for toning up the professional skills of the employees at the lower level. Training based on latest trends with their applications in the employee's area of functioning is very important for boosting professionalism. The co-operative organisations lack this vital component as a result of which the productivity of the employees gets affected.

Constraints in Co-operatives

The co-operatives are suffering from many constraints as far as HRM is concerned. There is not enough sensitisation on this issue at a time when organisations of other types are marching on the road to success by devising effective HR policies. There is absence of structured HR policy as ad-hoc measures are resorted as a result of which the co-operatives are not able to understand their unique characteristics or potentialities as compared to other organisations. Due to ad-hoc HR approach the co-operatives are not able to recruit capable people who are not only strong in their areas of operation but are also able to communicate the strengths of their organisation to the outside world. Lack of structured HR policy makes a co-operative organisation quite vulnerable as there is a feeling that the routine works can be performed with even unskilled hands. As a result of this the quality suffers which has a strong bearing on productivity. This inhibits growth of professionalism at all levels which stunts the growth of an organisation. A well-defined HR policy with well-defined out parameters can ensure that professionalism does not suffer. There is lack of awareness among the members on the need for a well-defined HR policy. This is mainly because the HR training component has not been well structured taking into account the internal workings of co-operative organisations considering the various sectoral areas.

HR is also neglected because co-operatives face resource crunch as a result of which they can not devote enough resources to this vital area. Hamstrung by financial difficulties co-operatives are often forced to neglect HR. Above all, employees and members show indifference towards training due to rigid mind-set which is not willing to leave the comfort zone. More particularly the old staff is not willing to learn the new ideas and techniques which is important for their professional growth.

At the grass-root levels HRD is more neglected because there is lack of infrastructural facilities. The training units are not well equipped to act as strong catalysts of HRD change. The grass-root functionaries and the state and district level co-operative staff do not have access to modern training facilities with emphasis on practical exposure. The training methodology and approach is outdated and there is no updation of the training curricula.

Role of Co-operative Federations

The co-operative federations must adopt a pro-active approach towards HRM. The policies accordingly should be devised based on proper assessment of the ground realities of the organisations. The guidelines must be prepared for structured and uniform human resource policies. A uniform approach will leave no grey areas which generally emerge resulting in lop-sided development of the organisations in which the inherent capacities of the personnel generally do not come to the fore.

It is found that the present training approach in co-operatives is not innovative due to lack of scientific and well-researched assessment of the professional needs of the employees. There is need for training need assessment based on the need of the organisation to adopt modern practices in accordance with its strategic objectives. The training focus must be on behavioural change with "empowerment" as its prime component which must be well reflected in the functional areas of training. Based on the need assessment of the co-operative federations, the training units must be assigned specific requirements so that they could work on these and develop modules based on their expertise and professional support. The training units must be provided all support so that they could successfully operationalise these programmes.

The co-operative federations must also help in preparation of calendar of training units. Preparation of the calendar of training units is very important as a systematic and methodological approach through a calendar is very important for providing a definite sense of propose to the programmes of the training units. The expertise of the co-operative federations is crucial for the training units in this respect. Well structured leadership development programmes of board of directors taking into account the internal dynamics of each sectoral area will be key to the success of HRM for co-operatives in future. Here the role of co-operative federations will be important in properly conceptualising these programmes and helping the training units to incorporate such programmes. The federations must analyse the working of the leadership development programmes in a dispassionate manner so that these programmes may be strengthened. The leadership development programmes must be formulated based on a clear understanding of the current trends within a particular sector against the background of theoretical postulates with a focus on co-operative advocacy and communications. The federations must help the training units to work on these lines.

Action Points

The actions points for HRM in co-operatives based on the above points can very well rejuvenate the co-operative sector. Formulation of HR policies in a business like manner will be the starting point for a new direction in co-operative development. Then formulating strategies for training need assessment will be the key. Research and further studies on this aspect may lead to a comprehensive assessment which can show the direction to move ahead. The formulation of a definite policy towards training of board of directors is again an area which needs rigorous exercise and constant follow-up. The co-operative sector has always been demanding full autonomy in its functioning. In the times to come this may become a reality with the passing of Constitutional Amendment. However, with the ushering of autonomy, self-governance and self-discipline will be important for the co-operative leadership. Evolving a code of discipline will be very important. In this respect the co-operative principles and values will be important in sensitising the leadership on this issue. The leadership training component must emphasise an application of co-operative principles and values in the devising of policies and implementation by the co-operative leadership so that co-operatives reflect value-based governance. An attituditional change in co-operative leadership can revolutionise co-operative HRM in a big way. Member education programmes for awareness of members is no less important than training of board of directors. Assessing the needs of the members in accordance with the current requirements will be very important in this regard. Enlightened leadership and well-educated members working in tandem with a visionary approach can bring a big change in the thinking of the co-operative organisations.

Preparation of annual course calendar based on need assessment must be undertaken seriously so that a professional approach may emerge which can pave the way for clear-cut implementation. Involvement of co-operative institutions like NABARD, NCDC, NCUI and other co-operative training institutions will be important in strengthening HR policies. The role of NCUI as a premier co-operative training institution will be pivotal as NCUI's training programmes at the national, state and district levels have touched upon various new areas in co-operative development and there has been increasing participation every year. Involving all the training units will lead to collaborative approach in addressing the issues of HR.

Restrictive co-operative laws hamper the evolution of structured and uniform HRM policies. If the co-operative law is liberal and encourages autonomy for co-operatives then the co-operatives will be able to devise their HRM policies without government interference. So amendments of State Co-operative Act to remove restrictive provisions in order to provide autonomy to coope-ratives is very important. It will lead to a definite shift in attitude towards formulating and implementing HR policies. The recruitment policy in co-operatives must be flexible enough so that meritorious talent is straightaway inducted into the co-operative organisations through management programmes run by the training institutes. There should be change in recruitment policy to provide flexibility of campus-placement of PGDBM/MBA conducted by the co-operative training institutes. This will enable good talent to enter the co-operative organisations who are well groomed with latest managerial techniques. To strengthen middle level induction "executive trainee scheme" can be a good strategy to revamp HR. This scheme which is increasingly popular in other sectors is equally important for co-operatives as the young bright talent must be attracted to join co-operatives with good remunerations.

To boost resources for co-operative education and training, there should be adequate budgetary provisions. A fund generating strategy for HR development must be formulated, and if necessary effective collaborations must be forged with like-minded organisations. Similarly, adequate funds must be mobilised for research/studies/survey on important aspects of training and education so that a clear-cut projection of HR requirements in co-operatives can be made. The critical factor in HRD however remains strong CEO support.

Challenges for Agricultural Co-operatives to Mitigate the Perils of Climate Change

G.C. Shrotriya and Daman Prakash

Introduction

Climate change is drawing global attention, both at national as well as community level. Nobel Peace Prize-2007 was awarded to Inter-governmental Panel on Climatic Change [IPCC] for its efforts to build up and disseminate greater knowledge about man-made climate change and consequent natural disasters.

Climate change normally indicates "Change in behavior of weather elements over an area during a time span". As per the United Nations Framework Convention of Climate Change [UNFCC]: "It is any change in climate that is attributable directly and indirectly to human activity that alters the atmospheric composition". IPCC defined it as "any change of climate over time whether due to natural cause or as a result of human activity".

Climate change is a serious emerging threat to food and rural livelihood security. The IPCC estimated that man-made greenhouse gases [GHG] emissions have risen by 70% over the past three decades and will increase notwithstanding current climate change mitigation policies and related sustainable development practices. The Food and Agriculture Organization of United Nations [FAO] estimates that "as a consequence of climate change India could lose 125 million tons of its rain-fed cereal production, which is almost 18% of the total production of the world".

India is primarily an agriculture-dependent nation, where majority of its 1.1 billion population depends on crop cultivation, fishery, forestry, dairy etc. for their livelihood. Besides this, India has vast coast-line which suffers from occasional cyclones. Many of these areas are also threatened because of rising sea level due to global warming.

Emission of Green House Gases

Greenhouse gases mostly consist of carbon dioxide [CO2], methane [CH4], nitrus oxide [NO2], chlorofluorocarbon [CFC] hydroflurocarbon [HFC] and sulphurhexafluride [SF]. GHG emissions from the food and agriculture sector account for over one-third of the current annual total emissions of global greenhouse gas emission. World's 130 million hectares of rice paddies are estimated to produce 50 to 100 million metric tones of methane annually. In India, highest emission of GHG is from energy sector [61%], followed by agriculture [28%]. GHG emission from industrial process is 8% [Fig-1].

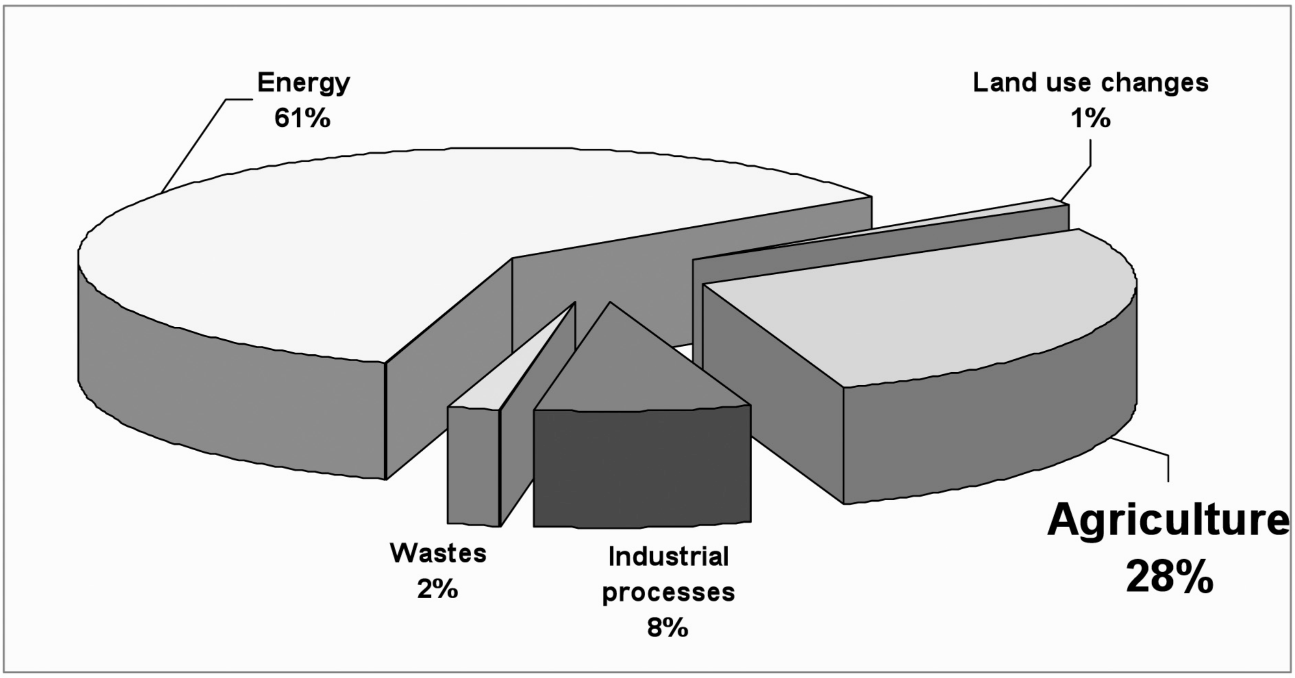

Fig.1. Green house gas emissions in India

Global Warming

When the solar radiation comes to the surface of the earth, a majority of its intensity is absorbed by earth and some of it is reflected back. Infra-red radiation passes to the atmosphere and some part is reflected back to the earth. Due to the formation of a thick layer of greenhouse gases most of the infra-red radiation gets reflected back to the earth, resulting in warming of earth surface.

The global warming is attributed to the enhancement of Greenhouse Effect. Global Warming Potential [GWP] of green house gases is as under:

Carbon dioxide	…	…	1
Methane	…	…	21
Nitrus oxide	…	…	310
Hydroflurocarbon	…	…	140-11700
Per fluorocarbons	…	…	6500-9200
Sulphur hexachloride	…	…	23900

The earth's climate has been reported to be warming up at the rate of 0.1C per decade over the last 50 years. IPCC has projected warming of about 0.2C per decade for the next two decades. Although there is considerable uncertainty about future, all climate models indicate a rising trend in temperature. By 2100 a rise of 1.8 to 4.0C is expected. Higher values cannot be ruled out.

Impact of Global Warming

Rise in atmospheric temperature leads to decrease in yield of crops; forest fires; floods due to higher precipitation; extreme weather leading to increase in the intensity of hurricane/cyclones; rise in sea levels due to the faster rate of melting of ice; glacier melting and disappearance; ocean acidification due to increased level of carbon dioxide; delay in winter and increase in summer span; and adverse impact on natural ecosystems, such as wetlands, mangroves and coral reefs, grasslands and mountain ecosystems; changes in monsoon pattern; and adversely affect agriculture and food security.

The rise in temperature will also affect the inland areas, particularly the snow-clad mountains. If the Himalayas melt then it can bring floods to majority of the foothills and plains. Temperatures and seasonal variations are also experienced in crop growing periods. Winter season in North India is shrinking resulting into shorter duration available for Rabi-crops. Productivity and production of wheat in the country is likely to decrease [Fig-2].

There will be severe changes in cropping pattern. A traditional farmer may not be ready for such

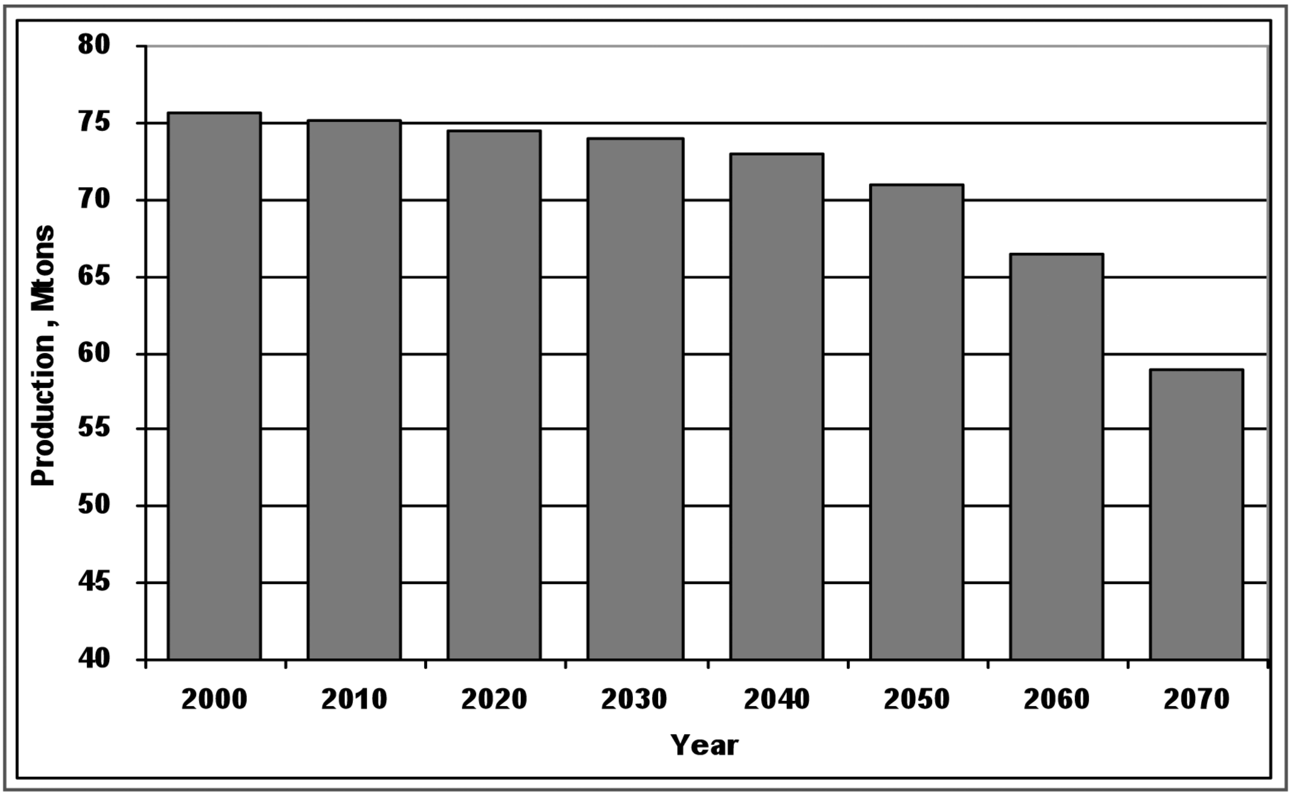

Fig.2. Potential Impact of Climate Change on Wheat Production in India

eventuality. Untimely rain of erratic intensity are becoming common.

Rise in Sea Level

With the increase in temperature volume of water is going to expand. Similarly melting of glaciers and mountain snow will add to the volume of water in sea, resulting in rise in sea level. This phenomenon is becoming a threat to the coastal areas. Already some areas have completely submerged or partially submerged. Projected sea level rise is between 15 – 90 cm. Reports of area loss have been received from Sunderbans of West Bengal and also from Orissa.

Mitigating Climate Change – Role of Co-operatives

With change in climate natural disasters like floods, cyclones, typhoons, high temperatures and drought are now occurring at higher frequency. These disasters affect the human and cattle population, leave a disastrous affect on land, water, vegetation of the area. Natural disasters do not recognize any national, political, or regional boundaries, nor do they distinguish between developed and developing countries.

Disasters like flooding from rising tides bring various types of problems, for example, cultivable lands becoming barren and saline, loss of human, cattle population, loss of property etc. This and other natural disasters may lead to large migration, thereby putting additional pressure on the available natural resources of that area where the people have migrated. Health and other hazards also pose pressure on relief and rehabilitation measures.

Most of the climate changes are considered man-made. Excessive deforestation by any nation can change the rainfall pattern of the area. Therefore, individual efforts with collaborative strategy have to be adopted for minimizing these effects. Climate change and natural disasters are a reality and communities have to prepare in advance to save themselves, agriculture and natural resources.

Some initiatives have been taken at the national level to mitigate or reduce the impact of climate change. Though at government level there are initiatives but at the community level they are not visible. Co-operatives are the community-based and member-oriented organizations. In the Principles of Cooperation "Concern for Community" has been highlighted. Therefore, the co-operatives also have a responsibility towards helping the community in preparing for climate change risk management.

There is a strong need to be pro-active to take adequate measures. It has to be about creating awareness or developing certain action plans. For initiating any such activities, "Will to Serve" the community is required.

There are 580,000 co-operatives in India with a total membership of nearly 380 million individual members. Around 65% of the co-operatives are agriculture-related. Each and every village in the country is linked to co-operatives. A majority of the farmers obtain credit, input supply and marketing services from their co-operatives. Co-operatives in India are broad-based and thus can influence the members and community to take up measures for mitigating the effects of climate change.

Action Points for Adoption

1 Carry out awareness programmes about ill-effect of climate change on agriculture and prepare for change in cropping pattern to be practiced and introduction of varieties suitable for modified situation;

2 Adopt Risk Mitigation Tools e.g., crop insurance, weather insurance, alternative options for livelihood. It is necessary to provide services to member-farmers in agriculture co-operatives so that they are benefited by these risk management tools;

3 Take up natural resource conservation activities like refforestation, enery, soil and water conservation;

4 Initiate activities which will reduce contribution to greenhouse gases like best management practices in crop production;

5 Develop linkages with the related agencies so that the farmers could be informed in advance about the incoming disasters;

6 Identification of natural warning system, its documentation and dissemination;

7 Create a co-operative hub for networking with already established national and international systems and disseminate information to grassroots level co-operatives;

8 Development of village disaster management plans, constitute disaster management committees, village disaster management teams, warning dissemination, rescue and evacuation, first aid, shelter management, damage assessment, counseling, water and sanitation, carcass disposal, relief distribution, training and education of disaster management teams; and creation of disaster management fund.

9 Look outwards to European and North American and South American energy generation, distribution and/or conservation co-operatives to identify possible transfers to India of best practices and new ideas.

Summing-up

Climate change and natural disaster, as has been projected by experts, is not a one-time phenomenon. With the continuing emission of greenhouse gases, reduction in cultivable areas, deforestation, population growth and the lukewarm attitudes of some of the polluting sectors, the effect on the earth and mankind is going to be harsher. There will be strong adverse effect on agriculture and means of livelihood.

Agriculture is one sector which would suffer the most. It is, therefore, pertinent that all individuals, farmers or non-farmers must contribute to enable the earth to reenergize itself. The greenhouse effect can be reduced only with the cooperation of everyone. Agricultural co-operatives have, therefore, a tremendous responsibility to help the earth and the mankind living on it. Co-operatives can also coordinate with the government programmes and develop a "Co-operative Mechanism" to ensure safety of income of members and of their resources.

Taxation of Co-operatives in Kenya, Leveraging the Common Bond: perspectives from a developing nation

Owen Koimburi Njenga

Introduction

In their book public finance in theory and practice Musgrave and Musgrave (2001) [1] begin a discussion on tax principle on the equity objective. Although not controlling, equity is a basic prerequisite for a tax structural design. We all agree that all of us should contribute to the government, a tax that should be seen to be equitable but there is no consensus on how equitable such distribution should be. Distributive justice would suggest that we look at two approaches to the tax discussion. One approach would be based on the so called benefit principle. This approach is traceable to Adam Smith and the other earlier writers. According to this approach a truly equitable tax system is where each tax payer contributes according to his benefits accruing from the state. This approach according to Musgrave would be based on tax expenditure in line with the established benefit criteria. The pitfall with this approach of course is the dilemma of establishing different benefits for different taxpayers and how to distribute public enterprise projects like roads, defense and internal security.

The other strand espoused by the author is the *ability to pay principle*. In this method the tax problem is viewed as by itself independent of the expenditure determination. A given total revenue is needed and each taxpayer is asked to contribute in line with his or her ability to pay. This approach leaves the expenditure side of the public sector hanging and is thus less satisfactory from an economist's point of view, the authors conclude.

Historically the benefit principle of taxation derives from the contract theory of the state as understood by the political theorists of the seventeenth century like Locke and Hobbes. It was evolved further into *greatest Happiness principle* of utilitarians like Bentham although it appeared in early classical economics of Adam Smith first cannon of taxation which in one sentence combines both ability to pay and benefit approaches "The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection the state". Adam Smith (1936) [2]

Classification of Tax

A tax system adapted in any country is always a trade off between efficiency, simplicity and objectives. The aim for each state is to aim for a tax system which optimizes on all aspects of equity, efficiency, and simplicity and resource allocation. If each tax was able to contribute to each of the above objectives in a clearly understood ratio then it would be easy to allocate such tax system either on a budgeted or programmed basis of allocation, however it is not always as easy as observed by H. L. Bhatia 2003[3] "a tax is usually a mixture of both advantages and disadvantages" Every tax structure is a reflection of a country's history of socio-economic aspirations and more often than not its struggle for independence. Whereas we can assume that a country is free to choose any tax system, it is not always so simple due to the pressure exerted by legislators., lobby groups, and as recently witnessed in most developing nations by bilateral and multilateral aid agencies as well as other powerful cartels mainly representing multinational corporations who often use arguments of contribution to national employment and tax payments to extract generous concessions from governments in developing host nations PricewaterhouseCoopers © (2006-2008)[4]. As reported in this Pricewaterhouse coopers newsletter, the interplay between financial reporting and tax reporting has resulted in significant implications for insurance, and tax departments including changes made by the Statutory Accounting Principles Working Group, the Financial Accounting Standards Board, The Securities and Exchange Commission, and the American Institute of Certified Public Accountants. These developments require tax practitioners to work closely with financial reporting staff to ensure that amounts are properly reported. Multinational businesses are increasingly affected by tax, legislative and regulatory developments throughout the world. Understanding the impact of these developments on business operations and transactions between countries is vital for a company's survival, concludes the news letter.

In theory we can generally assume that governments have efficient and honest administrative machinery to collect tax revenues. We can assume also that notions have well educated, and grounded legislative assemblies to debate and pass credible tax legislations.

More often than not however we find that the theory and practice of tax administration and enforcement are at variance with each other. This coupled with often ill informed legislative assemblies often results in poorly thought out tax policies and which have often led to tax revolts and or systemic tax avoidance schemes which are truly evasion in truth and fact. The multi national corporations have experienced tax practitioners who are on hand to offer the latest tax advise and since they can pay for such services end up being a step or two ahead of the national regulators and coupled with the ill advised legislatures ensures these multi- national corporations are able o negotiate the best rates and tax holidays for their companies and senior executives

Single Verses Multiple Tax System

Due to its simplicity the single tax system has been advocated in times past. As economies have diversified in sophistication, sectoral diversity and globalization, the efficacy of a single tax system has been found wanting. The hitherto arguments by early writers like Demarco (1928)[5] that under a single tax system most taxpayers are more certain of their liabilities has been challenged by both tax payers, academics and political elites and well as legislatures.

Single Tax System

One form of a single tax often practised under the nascent economies of Post Industrial Revolution and more recently by colonial authorities in the colonies was the poll tax or the head tax imposed on all citizens regardless of their ability to pay, and excepting the old, the very young and the disabled. However it is highly unlikely that the said tax would be natural or achieve distributive justice due to the obvious disparities of income, and perhaps more important is the differences in the marginal utility of income amongst different members of society which means, an absolute reduction of disposable income for all, in equal measure would hurt more the poor than the richer in our society.

In UK the Poll Tax Riots brought about mass disturbances, or riots, which occurred during protests against the Community Charge (commonly known as the poll tax), introduced by the Tory government led by Prime Minister Margaret Thatcher. By far the largest of these disturbances occurred in central London on Saturday March 31, 1990, shortly before the poll tax was due to come into force in England and Wales. Many believe that the London riot - the largest in the city in the 20th century - was the direct cause of Thatcher's downfall eight months later. In central London a demonstration which had begun around 11 a.m. degenerated into rioting and looting finally which ended at around 3 a.m. the next morning. This riot is sometimes called the Battle of Trafalgar, particularly by opponents of the poll tax, because much of the rioting took place in Trafalgar Square. Burns (1992).[6]

Multiple tax system

When looked at from the principles of distributive justice, resource allocation and growth targets as well as globalisation of our economies one starts to appreciate the need and efficacy of a multiple tax system. Some tax modification and reliefs are necessary to uplift living standards of the rural poor, some different tax systems will be useful to administer the import or export base of an economy while yet another tax system would be suitable for the high consumption patterns of the upper middle class of our capital cities. A lot of on income also originates from varied sources and justice and equity therefore, would demand that we tax them differently.

Proportional Verses Progressive Taxes

As tax modification has evolved over time the emergence of the above tax basis has been noted. A tax system can be proportional if it is a fixed percentage or share of every portion of earned income. If for example the taxing authority imposed a 1 shilling tax on every 1,000 shillings of income, it would be the same percentage of every fixed earned income subject to a specific threshold. A progressive tax however, on the other hand is one graduated in steps for every band of income earned. If for example we imposed 10% tax on the first £5000, 20% on income of £5001 - £7,500 and 30% on all income above £7,500, this would be a progressive tax. According to Saleem in N. A. (2005)[7] every country has adopted the progressive system of taxation, as it is considered more equitable.

Taxation of Co-operative Societies in Kenya

All co-operatives registered under the Co-operative Societies Act 1997[8] Laws of Kenya are referred to as "designated co-operative society". There are two types of co-operative societies namely:

1 Apex Co-operative Society

2 Primary Co-operative Society

An apex society is one whose membership is restrictd to other co-operatives. On the other hard a primary co-operative is one whose membership is restricted to individual members.

S 19 (A) of the income tax C470[9] applies to co-operative societies other than, Societies exempted from all the provisions of the Co-operatives Act under which S.86 falls, such exclusions relate to the co-operatives only and is the one that exempts such organisations like the Co-operative Bank of Kenya LTD. When they are exempted in this manner they are treated just like any other taxpayer and pay tax at normal corporation tax rate of 30% on adjusted profits for tax purposes.

The commission in deciding to treat co-operatives differently from the taxation methods had regard to the following factors:

a) number of members
b) nature of business
c) how business is conducted
d) extent of its transaction with non-members.
e) Any other related factors

There is a proviso however when the commission can deem the co-operative to be carrying on a business and impose tax on it as just like another business.

A good example is the Koriokor Chicken Co-operative Society LTD. They are and were involved in buying and selling chickens and they do not necessarily sell only to the society members. The business with non-members was so high they were thus deemed to be carrying on a business and taxed at the corporate rate and so up to now they operate just like a commercial enterprise.

Section 19A (2) Apex Society Taxation

In case of an apex society, the income on which tax is taxable will be its total income less an amount equal to the aggregate of bonus and dividend distributed to its members. The amount deducted however should not exceed the total income of the society for that year income. Total income minus (dividends plus bonus = taxable income.

Section 19A (2) Primary Society Taxation

In case of a primary society other than a savings and credit society the income chargeable to tax shall be its total income less the aggregate of bonus and dividends distributed to its members.

Section 19A (2) SACCO Society Taxation

This section deals will savings and credit societies and says that not withstanding any other provisions of this act, the taxable income of a Savings and Credit Societies Co-operative Society shall be the aggregate of:

a) 50% of its gross interest income (other than interest from its members)
b) gross rental income
c) capital gained tax under S. 3 (2) (f) of the income Tax Act.
d) any other income, other than royalties chargeable to tax under the income tax act but not falling under (a) (b) (c) above.

Under any other business above would include hotels, restaurants or such like businesses that a society might decide to run as a separate income generating project.

The guiding principle behind the unusual way of taxing co-operatives is that co-operatives provide a place where members may save and borrow from each other. If and when they stray to other areas they are penalised from mobilising mutual funds away from dealing with each other.

In addition, for an Apex or primary to continue enjoying the “designated status” they must distribute all proceeds to members to avoid taxation, as whatever remains must suffer tax at 30%. This is meant to discourage locking and investing members funds in other non core ventures.

The issue of capital gains is on interesting one. Basically if a co-operative society buys land and subdivides and sells to its members or non-members, this would be deemed to be trading and the sale proceeds less expenses would suffer tax at 30% in Kenya It does not matter that this is a one off taxation issue. Income tax act C470.[10]

There are very many decided cases in the sense that a company’s trading in land including subdivision and sale to its member would be treated as trading and suffer tax at the corporation tax rates. The capital gains tax as calculated under schedule 8 gain of the income tax act would not apply as this was suspended on 13th June 1985 but a computation based on selling price minus the cost of acquisition or development of a single plot or number of plots would be treated as taxable income. In all the decided cases judges have looked at the following factors:

1) Does the company or society in this case have wide powers to carry out activities in the nature of trade?
2) How much money was used in and for the development for improvements of the property

and or the buildings belonging to the co-operative?

3) Was the plot or a considerable part thereof sold or just a small part of the same leaving a large share of the property still belonging to the members in the corporate form of the co-operative.

4) Such considerations would be considered at length when dealing with co-operatives and similar decisions would have to be arrived at. Some of the decided cases are as follows and are reproduced to show how co-operatives need to be cautious when dealing in real estate and especially when development is done and land sold for a gain which might be treated as trading and taxed at the higher corporate rates which might put the interests of members at considerable peril;

Californian Copper Syndicate (Limited and Reduced) v.Harris 5 t.c.159

The company was formed to acquire a group of copper mines and tool power in its memorandum to enable it to either work the mines for the purpose of earning profits or to sell lease or otherwise dispose of the whole or part of the undertaking, including the promotion of the company to take it over. The company bought company bought copper bearing land and after a small amount of development which left it with no cash in hand the company sold the land and to another company. The price was satisfied in share. The company claimed that it had merely substituted capital in shares for capital in land and that any benefit accruing was a growth of capital. The commissioner found that by the purchase and resale of the property the company carried on an adventure or concern in the nature of trade. The Lord Justice said;

> *"It is quite well settled principle…..that where the owner of an ordinary investment chooses to relaise it and obtains a greater price for it than he originally acquired it at, that the enhanced price is not profit …. assessable to tax, but it is equally well established that enhanced values obtained from realisation or conversion of securities may be so assessable , where what is done is merely a realisation or change of investment , but an act done in what is truly the carrying on of a business…(the question to be determined was) Is the sum of gain that has been made a mere enhancement of value by realising a security , or it is a gain made in an operation of business in carrying out a scheme for profit-making ?..... I feel compelled to hold that this company was in its inception a company endeavoring to make a profit by a trade or business , and that the profitable sale of its property was not truly a substitution of one form of investment for another. It is manifest that it never did intend to work this mineral field with the capital at its disposal"*

A secondary point in the case was the fact that the profit was assessable although realised in shares and not cash.

In the St. Aubyn Estates LTD v Strick 17 T.C 412 a limited company was formed to take over, develop and sell a landowners estate. Purchase of other property was negligible and being made in special circumstances was ignored in the judgment. the appellant company claimed that no trade of property dealing was carried on and that it was formed merely to facilitate the development of a family estate by a landowner, but the commissioner found that a trade or business was carried on. In his judgment, Finlay J. reviewed the facts …

i) a that the company had wide powers to carry on activities in the nature of trade

ii) that a large sum appeared t have been paid by the company for the property

iii) that a substantial sum were spent on improvement and development

iv) that a considerable part of the property was sold

After rejecting a contention that the use of the phrase "trade or business" showed that the commissioner had misdirected themselves he went on to point out that the question was one of fact

> *"When one looks at the memorandum and articles, when one looks at the inception of the company, when one looks at what the company in fact did, it did in fact make profits by selling. When one looks at all these circumstances, I think it is impossible to say that they do not constitute evidence upon which a tribunal in fact might arrive at a conclusion that there was trade being carried on"*

It was held that though there might be considerations the other way the commissioners did not misdirect themselves in point of law, and that there was evidence on which the commissioners might arrive at eh conclusion at which they did in fact arrive.

Some development and sales had been carried out by the trustees before the company was formed. It is always doubtful whether in such a cases, where there is no purchase in the course of trade, a profit on sales justifies a challenge. It is a question of fact whether or not a trade is carried on. In the case the kind of development, road laying, e.t.c., was regarded as evidence of trade and subsequently led to the commissioners decision to bring to charge these profits as trade at the normal corporation rate in Kenya a uniform 30%.

Conclusion

Kenya has taken various measures to ensure taxation on co-operatives is designed and implemented in order to encourage members trading with each other and enhance benefits accruing from common bond. The interest from loans to members has been cushioned due to the fact that it is generated from investing contributions in form of shares all from the check off payroll deductions on salaries which have directly suffered PAYE. One of the ways is to refund such interest on a percentage of members dealing with other members, usually treated as a reward in form of refund of interest overcharged. Another approach would be to distribute to members interest which would suffer tax of 15% interest on deposit and 5% withholding tax (final tax) on dividend income. Whatever method a co-operative uses the ministry of co-operative usually accepts so long as it is clearly inbuilt in the society's by laws. In summary the government in introducing a separate section for co-operatives sought to attain through legislation the following;

1. encourage members participation and profit share
2. concentrate on core business.
3. force distribution for producer
4. penalise non-core activities through taxation.

Several co-operatives are investing heavily on land and other marketable securities and every so often selling plots after subdivision and often inviting non members from participating. The danger here is that the commissioner may interpret this as doing business by way of trading and thereby bring to charge the entire amount of the apparent gain which could bring ruin to many a co-operative society. Care should therefore be taken to ensure this does not happen and where it does it should be seen to have done purely for the benefit of members and should not be extended to non co-operators. It could help also if the a particular society intending to do so did consult with the commissioner of domestic taxes before doing so in order to get clearance before landing the society in lengthy appeal cases and tribunal hearings and perhaps court cases which could take years to resolve and at a considerable costs and time.

Notes

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Recent Trends and Development Problems and Prospects for Urban Co-operative Banks in India

Dr.T.Paranjothi, K. Ravichandran

Introduction

Urban Co-operative Credit Sector constitutes a very important segment of the co-operative movement. The sector comprises of the primary co-operative banks (Urban Sector) and Non-agricultural Credit Society including salary earners, thrift and credit society. These urban banks encourage thrift and attract deposit and lend to the members. These banks take care of the banking and credit needs of the lower and middle classes of people comprising small entrepreneurs, artisans and small traders etc. There are about 1853 Urban Co-operative Banks as on 31.3.2006 and out of which 716 banks are in Grade I, 460 are in Grade II and 407 are in Grade III and 270 are in Grade IV.

The potentiality of these banks in mobilization of resources is indeed great. The Urban Co-operative Banks are serving the community with a degree of distinction. As per RBI Directives, 60% of credit supply is channelised towards priority sector and rest of the investment have been made in the State Co-operative Banks and other government securities etc. Concentration of Urban Co-operative Banks is more in few states namely Maharastra, Gujarat, Karnataka and Tamilnadu, due to this, there is regional imbalance. During the IX Plan and also in Xth plan more banks were opened in the unbanked districts in different states. The Urban Co-operative Banks whose performance is good have been declared as scheduled bank by RBI. These Scheduled Urban Co-operative Banks are permitted by the RBI to invest their surplus fund in Commercial Banks and other financial Institution authorized by RBI.

The growth and development of the Urban Co-operative Banks during last one decade has been analyzed with the selected indicators and they are discussed.

Table 1 reveals the number of Urban Co-operative Banks functioning in India. It has not recorded a constant growth during the period under study particularly during the period 2003-04 to 2005-06. It has recorded a negative growth. The negative growth is due to increase in NPA position. It is evident from the fact that the RBI has imposed direction over 75 UCBs in India as on 31.3.2006. The policy decision of the RBI to stop giving license to the new banks also hinders the growth and spread of UCBs in India.

Table 1. Number of Urban Co-operative Banks

Year	No. of UCB	Increase /Decrease in Percentage
1995-96	1501	-
1996-97	1653	10.12
1997-98	1502	- 9.13
1999-2000	1784	18.77
2000-01	1618	-9.30
2001-02	1854	14.58
2002-03	1941	4.69
2003-04	1926	-0.77
2004-05	1872	-2.80
2005-06	1853	-1.01
2006-07	1813	-2.15
2007-08	1770	-2.37

Table 2. Owned Fund

(Rupees in crores)

Year	Owned Fund	Increase/ Decrease in Percentage
1996-97	4695	-
1997-98	5985	27.47
1998-99	6829	14.10
1999-2000	9314	36.38
2000-01	10826	16.23
2001-02	13797	27.41
2002-03	9830	-28.75
2003-04	12346	25.59
2004-05	13604	10.18
2005-06	13640	0.26
2006-07	18,209	33.49
2007-08	19499	7.08

Table 2 describe the owned fund position of the Urban Co-operative Banks. The owned fund consists share capital and reserves. It has recorded a constant growth during the entire period under study except during the period 2002-03.

Table 3 highlights the deposits mobilized by the Urban Co-operative Banks. The deposits mobilized by the Urban Co-operative Banks has witnessed a positive growth except during the year 2004-05.

Table 3. Deposits

(Rupees in crores)

Year	DEPOSITS	Increase /Decrease in Percentage
1996-97	30,714	-
1997-98	40,692	32.48
1998-99	52,681	29.46
1999-2000	71,189	35.13
2000-01	80,840	13.55
2001-02	93,069	15.12
2002-03	1,01546	9.10
2003-04	1,10,256	8.57
2004-05	1,05,021	-4.74
2005-06	1,12,237	6.87
2006-07	1,21,391	8.15
2007-08	1,38,496	14.09

Table 4. Borrowings

(Rupees in crores)

Year	Borrowings	Increase/ Decrease in Percentage
1996-97	619	-
1997-98	886	43.13
1998-99	932	5.19
1999-2000	1,475	58.26
2000-01	2,069	40.27
2001-02	NA	-
2002-03	1,590	-23.15
2003-04	1,484	-6.66
2004-05	1,782	20.08
2005-06	1,799	0.95
2006-07	2,657	47.69
2007-08	2,292	-13.73

Table 4 describe the borrowings made by the Urban Co-operative Banks. It varies from one period to another. A decline in the percentage of borrowings reveals the operational efficiency of the banks in reducing the fixed financial obligation like payment interest on borrowings and others.

Table 5 furnishes the gross NPA position and the gross NPA as a percentage to total advances. The gross NPA to total advances varied considerably.

Table 6 gives the CD Ratio position of the UCBs and it has been gradually declining over the period under study. It shows the UCBs is slightly concentrating on investment of funds rather than lending.

Table 5. Non-Performing Assets

(Rupees in crores)

Year	No. of Reporting Bank	Gross NPA	Gross NPA as a Percentage to total advances
1996-97	1318	2839.04	13.2
1997-98	1474	3305.98	11.7
1998-99	663	1359.86	10.8
1999-2000	1866	5589	12.1
2000-01	1748	9245	16.1
2001-02	1937	13706	21.9
2002-03	1941	12509	19.0
2003-04	1926	11922	17.6
2004-05	1872	15409	23.0
2005-06	1853	13871	19.7
2006-07	1813	14451	18.3
2007-08	1770	14583	16.4

Table 6. Credit Deposit Ratio

Year	CD Ratio
1996-97	70.2
1997-98	68.3
1998-99	64.9
1999-2000	64.6
2000-01	67.0
2001-02	65.0
2002-03	64.0
2003-04	62.0
2004-05	65.0
2005-06	64.0
2006-07	66.0
2007-08	64.0

Recent Trends and Developments Regulatory Measures

During March 2001, certain urban co-operative banks faced liquidity and insolvency problems. A major factor behind the problem had been non-adherence by the urban co-operative banks to prudential norms prescribed by the RBI. To overcome these problems the RBI identified the following areas for immediate regulatory response:

a) The extend of access of the urban co-operative bans to call/ notice money markets,

b) The asset liability management system to urban co-operative banks,

c) Inter bank exposure of the urban co-operative banks in the form of deposits maintained by one urban co-operative banks with another and,

d) The maintenance of SLR portfolio by the urban co-operative banks. In order to addresses these issues, the RBI has announced serious of measures relating to urban co-operative banks in April 2001 monetary and credit policy statement

Regulation and Supervision af Urban Co-operative Banks

The urban co-operative banking sector has witnessed certain weakness due to lack of sound corporate governance, unethical lending, comparatively high level of loan defaults, inability to operate in liberalized environment. To overcome this problem the RBI has brought various regulatory measures during 2004-05 and it includes the following:

to solve the problem of dual control the RBI has entered into a regulatory arrangement with State Governments through Memorandum of Understanding (MoU) to facilitate proper and co-coordinated regulation and supervision of urban co-operative banks. The MoU have already been signed with eight States, viz Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Rajasthan, Uttaranchal, Chhattisgarh and Goa. In each of this State a Task force has also been constituted.

Task Force on Urban Co-oprative

The task forces comprises of Regional Director of the RBI for the concerned States as the Chairman, Registrar of Co-operative Societies as Co-Chairman, an official each from the Reserve Bank, National Federation of Co-operative Urban Banks (NAFCUB) and the State Federation of UCBs as its members. In 2005-06, the task force has examined 250 UCBs. It has conducted 41 meetings, review 174 weak banks and recommended revival plan, given action plan for 46 Urban Co-operative Banks under direction review application for 36 unlicensed banks, shown exit via., non-disruptive rate (merger and amalgamation) in four States Viz., Andhra Pradesh 3 banks, Gujarat 5 banks, Karnataka 1 bank and Madhya Pradesh 1 bank. As a part of the endeavour towards strengthening UCBs, the RBI issued guidelines on merger/amalgamations from February 2005.

Income Recognition, Asset Classification and Provisioning Norms

The RBI in order to bring international best practices, it has reduced the time period for reckoning an advances as non-performing from the existing 180 days to 90 days with effect from March 31, 2004. To some category of loan, it has given relaxation to follow 180 norms instead of 90 days of norms up to March 2007 and afterwards, they have to follow 90 days norms.

License to Multi State Co-operative Societies

An ordinance to amend the Banking Regulation Act, 1949 and DICGCC (Deposit Insurance and Credit Guarantee Corporation) Act, 1961 was promulgated on September 2004 to enable the RBI to issue license to Multi State Co-operative Societies to carry on banking business. This was in response to developments following the Supreme Court Judgement dated October 29, 2003 that the RBI could not issue banking license to a society registered under Multi State Co-operative Societies Act 2002.

Know Your Customer (KYC) Guidelines-Anti Money Laundering Standards – UCBs

The Urban Co-operative Banks are advised to follow KYC norms and adopt certain customer identification procedure for opening of accounts and monitoring transactions of a suspicious nature for the purpose of reporting it to appropriate authority. These KYC guidelines have been revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering Standards and on combating financing of terrorism (CFT). These standards have become international benchmark for framing on Anti Money Laundering and combating financing of terrorism policies by the regulatory authories compliance with these standards both by the banks, financial institutions and the Country have become necessary for international financial relationship.

Grading of UCBs

The UCBs are previously classified as “Weak” and “Sick” Co-operative Banks based on its CRAR, NPA position. An appeal has been made by the UCBs and their associations to change the methods of classifications of UCBs as weak and sick. The issues were also considered by the Committee set up under the Chairmanship of Shri Anant Geete, the then Minister of State for Finance, Government of India. The Committee recommended for changing the nomenclature of weak and sick. The RBI by considering the recommendation has changed system of classification UCBs into Grade I, II, III and IV instead of weak and sick. The Grading of UCB for the last 3 years is given in Table 7.

Table 7. Gradation of Ucbs

Year	Grade				Total
	I	II	III	IV	
2003-04	880	307	529	203	1919
2004-05	807	340	497	228	1872
2005-06	716	460	407	270	1853
2006-07	652	598	295	268	1813
2007-08	748	526	258	238	1770

The above table shows that banks in Grade I has been decreasing year after year and on the other hand, there was a gradual increase in the UCBs under Grade II, III and IV. It shows majority of UCBs are unable to fulfil the CRAR and NPA norms prescribed by the RBI for the purpose of classification of UCBs in to Grade I, II, III and IV.

Ban on Loan to Directors and interested Companies

The overall ceiling on loans to directors, their relatives and concerns in which they are interested was brought down to five percent of banks demand and time liabilities in December 2002. The Joint Parliamentary Committee has made recommendation to put complete ban on sanction of loans and advances by UCBs to their directors and their relatives and the firms concerns in which they are interested has been imposed with effect from October 1, 2003. The ban has been imposed to avoid concentration of borrowings on few hands.

Vision document for UCBs

Urban Co-operative Banks are an important part of the financial system in India. It is therefore, necessary that the UCBs emerge as a sound and healthy network of jointly owned, democratically controlled and ethically managed banking institutions providing need based quality banking services, essentially to the middle and lower middle classes and marginalized section of the society. This document sets out the broad approach and strategies that need to be adopted to actualize this vision.

Major Obeservation and Challenges Before Urban Co-operative Banks

1. The following are the major observations and challenges faced by the urban co-operative banking sector in India.
2. There was no constant progress in the number and spread of urban co-operative banks in India.
3. The sector has witnessed a constant growth in the owned fund position.
4. The deposits mobilized by the urban co-operative banks have shown a positive trend.
5. The borrowing of the urban co-operative banks has been increasing year after year and it is not an encouraging sign for the growth and development of the urban banks in the country.
6. The credit deposit ratio has been decreasing year after year.
7. Opening up of the economy due to liberalization, privatization and globalization has brought stiff competition for the urban co-operative banks. The post office, mutual funds, stock markets and security market are the new competitors for the urban co-operative banks.
8. Flow of foreign funds leads to increase in money supply and decrease in the interest rate on deposits, advances, investment etc.
9. The capital base and reserve position of the urban co-operative banks are weak.
10. The board members are having less exposure to the banking related activities.
11. The urban co-operative banks are not managing funds more effectively and efficiently and it will certainly affect the profit and profitability position of the urban co-operative banks.
12. The banks are not much involved in non-fund operations and it is an additional income for the urban co-operative banks.
13. The new generation co-operative banks are providing high quality services by using modern technology mainly to make the customer satisfied. But the urban co-operative banks have not witnessed a qualitative improvement in providing better services by using modern banking facilities and also technologies. Providing banking facilities in the changed business environment is yet another challenge before urban co-operative banks.
14. Lack of innovation in the loan product and there is also a delay in sanction and disbursement of loan.
15. The percentage of NPA in the urban co-operative banks have not been reduced even after introduction of "Securitization Reconstruction of Finance Assets and Enforcement of Security Interest Act 2202 (SARFAESI). The RBI decision on issue of direction, grading of urban co-operative banks are mainly based on the NPA position.

Suggestions

1. As a process of image building and also to bring transparency in the method of functioning of urban co-operative banks, it is necessary on the part of the management to give top priority in implementing the principles of corporate governance in urban co-operative banks.
2. To improve the profitability position, the urban co-operative should focus its attention on their business activities like providing fund transfer facilities, non-fund based business such as issue of bank guarantee, letter of credit, locker facilities etc.
3. To achieve CRAR norms the bank should compulsorily improve its owned fund position.
4. The credit deposit ratio should be increased and the banks should concentrate more on lending operation rather than investments, because the yield on investment is less than the yield on lending. Further, it was observed that the rate of interest on investment is less than the rate of interest offered by the bank for it deposits and it is an additional loss to the banks.
5. In order to protect the interest of the deposit holders the urban co-operative banks should fully comply with the RBI guidelines and instructions from the Registrar of Co-operative Societies.
6. The banks should involve in the skill upgradation of staff and the board members,
7. The banks should concentrate more on mobilization of deposits particularly the low cost deposits like savings and current deposits.
8. For getting better yield the excess investments in SLR may be reduced and it may be used for grand of loans and advances.
9. The management should lay down proper loan policy and procedure and delegates power for setting guidelines pre sanction scrutiny and post disbursement.

Conclusion

The urban co-operative banks play a key role in the development process like credit delivery and deposit mobilization to the persons of small means. The services provided by the urban co-operative banks are very essential and important to qualitative improvement in the economic conditions of poor in the urban area. The noble cause of serving the poor and conduct of banking business by the urban co-operative banks often poses number of challenges.

Taking into account the existing and emerging challenges faced by the urban co-operative banks, the RBI has taken lot of policy decision and given autonomy and freedom to some extent in the method of functioning of urban co-operative banks in India. By using the autonomy and freedom it has to make sincere attempt to overcome all challenges and it is need of the hour for the urban co-operative banks to demonstrate its ability to survive in the competition and gain customer confidence mainly to make the urban co-operative banks as viable, vibrant and financially sound institution.

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Development of Microfinance in the Co-operative Movement of Myanmar

Gus Poston

Abstract

Microfinance is not well developed in Myanmar – there are few operational programs. There is, however, a large demand, since there are very few alternative financial service providers for the poor. The 'Central Co-operative Services' (CCS) of Myanmar have recently implemented a simple approach to microfinance which after 15 months of operation has 40,000 members. The system is both growing fast and is profitable, so is likely to develop into a major microfinance movement. This short paper describes the early experience of this microfinance movement and draws out lessons learnt.

Background – the thrift and credit co-operative movement of Myanmar

As detailed in a previous issue of the International Journal of Co-operative Management (Poston, 2007), there is an extensive, if relatively unknown, thrift and credit co-operative movement in Myanmar. Founded in 1904, and having grown in the period of socialist development in Myanmar in the 1970s, especially in state institutions (such as government departments, schools, etc.), the movement now has approximately 400,000 members. Although total membership is falling, membership is growing amongst entrepreneurs and small-scale traders and total assets are growing at approx 30% per year.

The co-operative movement operates under the 1992 Co-operative Act, which provided for reduced government involvement in the sector. The Apex body of the co-operatives, the Central Co-operative Services (CCS), is owned by Unions and Syndicates, which are in turn owned by the Primary Level societies. In parallel, the government's Department of Co-operatives operates Divisional Offices and Township Co-operative Development Officers who support the development of the co-operatives.

The existing membership of the Thrift and Credit Co-operatives is split into two segments. The membership of 'Department Co-operatives' (approx 320,000), societies operating in state institutions, comprises civil servants, teachers, medical staff, etc., i.e. a professional group with a stable income. The membership of the 'Bizarre Co-operatives' (approx 34,000), societies operating in wet-markets and trading areas, typically are daily traders running micro enterprises.

While membership and total assets of the 'Bizarre Co-operatives' has been growing, the growth has been slow. This is likely to be because the product set is poorly developed: many societies operate as simple rotating savings clubs, and the managers have little incentive for growth. A major challenge identified in the 2007 work was to innovate the product set and institutional set-up of the co-operatives to provide a service more suited to the needs of the Bizarre Co-operatives and that more accurately targeted the poor.

Retail banking services are poorly developed in Myanmar. A few micro-finance projects have been started by local and international NGOs, but these have so far only reached a small proportion of the population. The formal banking networks are very poorly developed. In many cases co-operatives are the only financial services institutions available, even for 'middle-class' people

Recent innovation – introduction of microfinance

In February 2007, representatives from ACCU ran a conference introducing microfinance to members of the co-operative movement in Myanmar, which the author attended. The conference introduced a model of microfinance that provides small-scale lending with regular re-payment to micro-entrepreneurs, and focused on practical issues such as institutional design, pricing, etc.

In September of 2007, CCS launched a highly systematic approach to microfinance. To date (January 2009), CCS has provided seed funding to 72 MFIs and a further 51 MFIs have been founded using CCS's model. These MFIs have a total of 42,700 members (31,300 in CCS seeded MFIs, 11,400 in separate MFIs). A majority of these members are wet market traders, approx 75% are female. Members are typically small-scale traders, peddle-rickshaw riders, etc. So far the co-operatives have all been founded in 5 cities. CCS plans to expand to more cities.

The MFIs are founded on the same approach. CCS pays for three staff. These staff identify 50 members, in groups of 6, at which point CCS provides Kyat 1.5m (c$1,500) seed money as a loan to the MFI. This is lent out to the members as Kyat 30,000 loans (c$30), with group liability. The leaders of the groups collect Kyat 600 daily ($0.6) from each member and pays this to the MFI, repaying the loan in 60 days. This Kyat 600 payment comprises Kyat 500 principle repayment, Kyat 30 interest and Kyat 70 compulsory savings. This allows the MFI to bring on new members every day. After 60 days, CCS provides an additional loan of Kyat 1.5m, and members who have successfully completed a cycle are able to borrow Kyat 45,000 (c$45), which is again repaid over 60 days through Kyat 900 payments, again comprising an element of compulsory savings. The loan amount increases through progressive cycles, up to Kyat 90,000 (c$90). The interest payments are equivalent to a 3% charge per month on the total loan amount. Savings are paid 1% per month interest on outstanding balance, and can be withdrawn after one year.

This methodology allows the MFIs to grow fast. For example, after 520 days of operations, the Thaketa MFI in Yangoon had 795 members and had made a total of Kyat 200m in loans ($200,000), of which 20m ($2,000) were outstanding. It had accumulated Kyat 25m ($2,500) in savings.

The methodology also allows the MFIs to be profitable. Their only operational costs (i.e. excluding interest paid to members and to CCS for the seed loans) are salaries, which vary by number of members according to a set table and stationary – to date there has been no bad debt charge. In the Yangoon District operational costs to date have averaged at 46% of net interest income plus fees. All but one of the 29 MFIs in the District have been profitable – and profits are set to rise as societies become larger. The MFIs have made a total profit of Kyat 105 m ($105,000). To date this profit has been retained in the MFIs for on-lending. In time some will be repaid to CCS to create a fund to cover loan-losses.

The only real competition to the MFIs is informal money lenders, who are common. They can charge up to 20% per month.

Opportunities for expansion – Scaling up and introducing improved systems

The success to date indicates the demand and the opportunity to expand microfinance in Myanmar. As the sector grows complexity will increase, creating risks which CCS is already starting to mitigate.

Currently all accounting and transaction management is manual. Some calculations, such as interest on savings, are complex. Ensuring accurate record keeping and accounting is time consuming for CCS staff. As a result, CCS is considering implementing a specialist banking IT system. However, the small scale of the MFIs makes this challenging, so CCS is designing a system that uses ‘IT centres’ in each city / region.

At the moment all the MFIs are owned by CCS. Once they mature, they will be converted into co-operatives, with their retained earnings converting into the society’s capital. CCS expects that the microfinance co-operatives will continue to offer the same products, perhaps with some expansion into more savings products or loans.

As the MFIs grow, collections become difficult for 3 staff to manage. CCS is considering requiring the MFIs to split once they become a certain size.

Innovation / roots of the MFI’s success

The MFIs have had an impressive growth rate – with 40,000 members joining in 18 months. The MFIs are also clearly financially sustainable – they are cash-flow positive from inception and, as they grow, their profitability increases.

A large part of this success is from the MFI’s institutional design.

Individual responsibility, with central control

The MFI arrangement has struck a good balance between building individual responsibility for growth, required to maintain momentum, and central reporting and control, required to ensure consistency and accountability.

Each of the individual MFIs have a leader who is responsible for the local development of the group. They are responsible for identifying new member, ensuring individual members maintain their re-payment schedule / helping members understand the system and reporting to the CCS centrally. They also have incentive to build up the system, since their individual pay increases as they bring on more members.

In this way, at the local level leaders are responsible for identifying new members and building trust and support, but not for product design or policy formation. The Central Control of CCS is responsible for the long-term policy creation and development of the whole system, but does not get involved in day to day operations. Many MFIs find that they are not able to maintain this split of responsibility.

Cash flow positive

The MFI design has 'profitability' built in, which creates a positive cash flow from very early on. This is ensured in a number of ways.

Costs are very low for initial set-up. The MFI simply needs three staff and no fixed costs. The staff salaries are initially very low. MFIs can only start-up once they have 50 members, which is sufficient to cover the initial costs.

Interest margins are high. The MFIs have been designed to have high initial margins. These interest margins are competitive, since the alternatives sources of finance are very much more expensive, and also ensure the MFIs create sufficient surplus to be re-invested back into the system.

The MFIs have identified a low-cost source of funding – through a partnership with a local bank. This removes the need for more expensive equity funding and allows the MFIs to achieve significant financial leverage early.

Simple systems / focused on process

Perhaps most importantly, the MFI system has been designed to be simple, replicable and efficient. For many MFIs, the challenge is not setting up the initial system or being successful with a small number of societies, but scaling up to have 30-50 societies. This is because many MFIs rely upon a cadre of capable and highly motivated staff to make a number of individual decisions to keep the MFI operating, such as credit decisions, decisions on how to source funds, on product design, etc. Frequently MFIs find managing this cadre becomes a major challenge, which forces the leadership to spend much of their time on individual societies or on correcting errors made by local staff – or it leads to poor decision making in the societies.

The CCS model has circumvented this issue by having a very regimented and simple system, which requires little individual decision making. Local leaders simply follow the approach given in the MFI 'rule-book' – there is no need for local decision making. This also allows the leaders of the movement to focus on future development; they have little contact with the MFI groups on a daily basis. While there are some issues that the local MFIs have problems with (such as calculation of interest rates on deposits), the leaders are able to identify systematic solutions to these problems (such as implementing a simple computer system).

Using existing networks and institutions

CCS has tapped into an existing network, of the co-operative societies. This brings a number of advantages. Probably most importantly, it gives access to a large number of people across the country with experience of community mobilization and commitment to the co-operative approach. These people already have community contacts and can be mobilized rapidly.

Conclusions

The experience of introducing microfinance into Myanmar validates a number of lessons:

Microfinance can grow very fast, when it is effectively addressing a genuine consumer need. This is especially likely to be seen when there is little competition.

Systematic and standard processes are critical to maintain growth. They reduce management complexity, allow mass training and build confidence in the system.

As the system grows, IT can have a significant impact. It simplifies processes, makes staff more productive and increases control. However, it is important to consider the overall benefits of a system, rather than automate for its own sake.

While these lessons may be relevant in other situations, perhaps the most exciting opportunity is further growth in Myanmar. Given the lack of competing banks, the success to date of CCS's microfinance activities and the clear market demand, it is likely that Myanmar will rapidly develop a large and high impact microfinance movement.

A Study on the Marketing Efficiency of Primary Agricultural Co-operatives in West Shoa Zone of Ethiopia

S.Nakkiran

Abstract

Ethiopia is an agricultural country and the national economy is completely depending on Agriculture for its growth and development. Agriculture provides employment opportunity to millions of people, provides raw material for agro-based industries and forms the major sector in export earnings. To develop agriculture, Co-operatives have been started during 1960, and a new emphasis was given during Derg period. But during the Derg period Co-operatives were thrusted on the farmers and many Co-operatives went on failure due to lack of initiative by the member farmers. With the introduction of democracy in 1991, co-operatives were given a new encouragement and the Co-operative Proclamation (147/1998) paved the way for the organization of new Co-operatives and revival of old Co-operatives.

Agricultural Co-operatives organized at the village level are the backbone of the rural economy and vital organ of the Co-operative moment. The village Co-operatives at present are undertaking marketing activities. They are not disbursing credit activities to the farmers. The present study is undertaken to find out the marketing efficiency of the primary agricultural Co-operatives. The marketing efficiency is relating to the procurement and supply of inputs like improved seeds, fertilizers and pesticides to the farmers. In selling the produces of the farmers for a better price, the efficiency in output marketing is measured.The study has the main objective to measure the marketing efficiency of sample agricultural co-operatives relating to input and output marketing.

The study was sponsored and financed by the Ethiopian Agricultural Research Organisation, the country's mouthpiece of agricultural research. The study was undertaken during the period 2005-07 and the Report was submitted during February 2008. Survey method has been followed for the study. The survey area is west Shoa Zone of Ethiopia. With regard to sampling, out of the 39 registered agricultural co-operatives in West Shoa Zone, 15 % of the societies were selected randomly (6 societies). With regard to the selection of farmers, 10% of the members from each society were selected using simple random techniques. The total sample size of the farmers is 140.

Almost all co-operatives are able to provide better price to the farmers than the open market price. Out of the six co-operatives, four co-operatives have adequate working capital and for procurement operations, they get their finance from commercial bank of Ethiopia. Through this process, they disburse immediate payment to the farmers. The cost of marketing operations of all the primaries are comparatively lower than the private traders. The major marketing services provided by the co-operatives are distributing inputs and selling the produces. To conclude, the marketing efficiency of the majority of sample co-operatives is good and they have to provide transport facilities to the farmers.

Key words

Agriculture, Co-operatives, Efficiency, Ethiopia, Marketing, Primary Societies

Introduction

Like many other developing countries agriculture is the backbone of Ethiopia's economy.

Agricultural contributes to over 90 % of the export exchange earnings, 85% of employment and 55% of the GDP and generates raw materials to manufacturing industries proving that the country's economy depends largely on agriculture. It is the main source of food for households' consumption. Moreover the majority of the rural population's income is mainly generated from agriculture.

The potential for agricultural development is enormous: Out of a total area of 113 million hectares, 65% is arable. At present, about 7 million hectares is under food crop production with about 85% planted to cereals, teff, maize, barley, wheat and sorghum. There is a large labor force and generally adequate rainfall in the western, central, and southern part of the country. Despite this great potential, the performance of Ethiopia's agricultural sector has been disappointing. In real terms agricultural growth averaged 1.5 % per annum during the early 1990s. In the mean time, the population of the country grew by 3 % per annum resulting in a wide spread food scarcity and poverty in the country (EARO, 1999). The fact that the country is characterized by diverse climatic, ecological, and biological conditions, it is possible to develop complex and different agricultural production systems. The highlands of the country are characterized by crop-livestock mixed farming systems while the lowlands are featured largely by nomadic pastoral agricultural systems. Traditional farming practices dominate the sector thus resulting in a subsistence type of agricultural production in all the farming systems.

Description of the study area

Ambo Woreda is one of the 23 Woredas in West Shewa zone of Oromia Regional state of the Federal Democratic Republic of Ethiopia. Ambo Woreda is located between 80 47‘ N - 90 21’ N and 370 32‘ E - 380 3‘ E.

The capital city of West Shewa zone is Ambo town and it is located in Ambo Wereda. Ambo town is 125 km. away from Addis Abeba on Addis Abeba - Nekemte road. Ambo Woredas capital is Guder 12 kilometers away from Ambo town on Ambo- Nekemte road. Ambo Woreda is surrounded by Gindeberet, Jeldu and Dendi woreda in the northeast, east and southeast, by Wenchi and Ameya Woreda in the south, by Tikur Inchini in the southwest and north west.

Agriculture in the study area

About 75% of the population in Ambo Woreda is employed in agricultural production. There were 56 PAs and 23173 farm households in the years 1996 and 1997. There were 23 agricultural service co-operatives with a total capital of 508,880 Birr and 74934 Birr in 1996 and 1997 respectively. Crop and livestock mixed farming system is practiced in the Woreda. The major crops produced in the study area include teff, wheat, barley, maize, sorghum, horse beans, and noug .About 50% and 32% of the farm households were able to get fertilizer in the years 1997 and 1998 respectively. Improved seeds of teff, wheat, barley, and maize were distributed to approximately 7% of the farm households of the Woreda in 1995/96. About 15% and 81% of the improved seeds distributed in the Woreda in 1995/96 accounts for teff and wheat respectively. Wheat and maize improved seeds were the only ones that were distributed to 1% of the farmers in the Woreda in 1996/97. In 1996/97 about 39% of the farmers owned no oxen, 22% owned a pair of oxen and 13% of the farmers owned 3-4 oxen and about 3% owned five and above in the Woreda (Ambo Woreda Agricultural Office, unpublished material).

Statement of the problem

Unlike the village primary co-operatives in other developing countries, primary co-operatives in Ethiopia are not undertaking credit functions. Here the primary co-operatives are undertaking only marketing functions. The two major marketing activities that are undertaken by these co-operatives are input marketing and output marketing. In the case of input marketing they supply improved seeds, chemical fertilizers and pesticides if various kinds. The marketing efficiency in this respect is relating to the bulk purchase of the above inputs at a lower price and distribute them to the farmers at a lower price than the market price .It is ideal for the primary co-operatives to procure these inputs through the co-operative unions to which they are affiliated. If there is no co-operative union established in their area of operation they can purchase them in the open market for a lower competitive price. In the case of output marketing they have to sell the produces if the farmers for a higher price than the price offered by the merchants. Here also the primaries can take the help of the co-operative unions. Present study is important in the context of the importance gained by the primary co-operatives in rural Ethiopia. Further, the survival of the primary co-operatives depends on their marketing efficiency in input and output marketing. How far the primaries are channeling their activities towards the goal of marketing efficiency is the major question raised and to find the answer the present study has been undertaken

Objectives of the study

The study has the following objectives

I To study the general working of the sample primary co-operatives in Ambo zone.

II To measure the marketing efficiency of primary co-operatives in terms of input and output marketing against marketing efficiency indicators

III. To arrive at major findings and offer suggestions for their improvement.

Methodology and sampling

Survey method has been followed for this study. The survey area is Ambo Woreda. Out of 39 Primary co-operatives in Ambo woreda , 15% of the co-operatives were selected on random basis. Regarding the selection of farmer members , from each society 10% of the members were selected forming the total sample size of 140.

Tools of data collection

To collect the needed data two questionnaires were prepared, one for the primary co-operatives and the other for the member respondents. The former questionnaire contains details of the working of the sample co-operatives including membership ,capital, borrowings, methods of input and out put marketing, marketing information etc. The questionnaire on the farmers covers the areas like socio-economic profile, production pattern, preference of marketing agencies ,price details, performance of the co-operatives etc.

Limitations of the study

The study has certain limitations , as noted below:

1. The research area is new to the researcher and he has to face the language problem.
2. The sample co-operatives as well as other co-operatives are not maintaining proper records .
3. The accounting system maintained by the co-operatives is not uniform and cotained lot of structural mistakes.

Review of Literature

Research studies on marketing co-operatives/co-operative unions/primary co-operatives and their operational efficiency or marketing efficiency are very rare in Ethiopia. Due to paucity of research literature related studies on this area have been examined here.

A study has been conducted by Tegegne Teka on "The state and rural co-operatives in Ethiopia", which was published in 1988. The study evaluates the growth and development of co-operatives in Ethiopia during the Derg period and examines the activities undertaken by agricultural service co-operatives and agricultural producers' co-operatives. The author dealt elaborately with the compulsory nature of the organization of co-operatives and the causes that led to the failure of such co-operatives. He has not dealt with the marketing activities of the above co-operatives. The study was only general assessment of the co-operatives. He concluded that, the organization of co-operatives fell short of their number and the rural co-operatives in Ethiopia are in their formative stage and need to develop for some time in order to meet the objectives upon which they are created.

Another related study was undertaken by Steven Franzel, Legesse Dadi, Forrest Colburn and Getahun Degu on "Grain Marketing Policies and Peasant Production" under the auspicious of Institute of Agricultural Research, which was published during the year 1992. This study has focused mainly on the performance of Agricultural Marketing Corporation (1976) and the causes for its failure to fulfill the objectives of the organization. Compulsorily procurement from the farmers for a lower price of grains, low quality production of commodities, the quota system for procurement, etc led to the failure of AMC's operations. The authors suggested to promote private sector participation and co-operative sector participation in grain marketing, while protecting the interests of the producers and consumers.

Gizaw Nigussie undertook a study on "Towards Liberalization of Fertilizer Trade in Ethiopia", which was published during 1992. The study focused on distribution arrangements made for the fertilizers by government and private trade. The study also dealt with the role of transport, transit services, banking services, etc in providing quality and timely fertilizer supply to the farmers. The study dealt with the role of primary co-operatives in distributing fertilizer to the farmers and appreciated the efforts of the co-operatives in providing uniform fertilizer price throughout the country. In the future, when effective tax collection mechanism is instituted, differentiated price of fertilizer may be considered. The study also recommended for the proposal of involving the private sector in the distribution and marketing of fertilizers. It also recommended to provide credit to the farmers for the purchase of fertilizers.

Lelissa Chalchissa conducted a study namely, "Ethiopia: Amecha Multipurpose Agricultural Co-operative" during the year 2002. This particular study is a case study dealing with the working of the particular co-operative, which was established during the year 1997 in Oromiya region. The study mentions the key factors for the re-launching of the co-operative as per the latest Co-operative Proclamation No. 147/1998. The study pointed out the fertilizer sales financed through credit and grain marketing, while profitable, needs financial support in the form of funds to be provided by UNDP. The co-operative has achieved good results in grain marking activities from the year 1997 to 2000. No details of the operational aspects of the society has been dealt by the study.

Findings

Present study is undertaken in Ambo woreda, West Shoa Zone of Oromiya Region. For the purpose of the study, informations have been collected from six primary co-operatives, which are undertaking input marketing and output marketing. To supplement the information of the primary co-operatives, informations have been collected from 140 respondents who were chosen randomly.

1. Half of the sample co-operatives (50%) covered 4 – 6 kebeles as their area of operation. 33.4% covered 0 – 3 kebeles and the remaining 16.6 % of the co-operatives covered above 6 kebeles. So, half of co-operatives have covered 4 – 6 kebeles.
2. Co-operative unions are the affiliated bodies of the primary co-operatives. A primary co-operative has to get guidance, help and contact with the co-operative union. The co-operative union provides financial help and needed facilities to the primary co-operatives. Half of the primary co-operatives are located within a distance of 0 – 20 km from the co-operative union.
3. The capital of primary co-operatives is contributed by members and others. The share capital is compared for two years, namely 2001-02 and 2004-05. For society A, the increase in share capital was from Birr 7285 to 8400; for society B, the position was from 59106 to 55435; for society C, the increase was from 13172 to 61631. The remaining societies were started after 2001-02. The capital structure growth is good in the case of society B and C. In almost all the co-operatives, majority of the shares were contributed by the members.
4. The sample primary co-operatives borrow from Commercial Bank of Ethiopia and in certain cases, from the Regional Governments and NGOs. Borrowings from Regional Governments are meant for the procurement of grain from farmers. The total borrowings of society B increased from Birr 56200 to 397581, for society C it increased from Birr 226159 to 625699, and for society D, the increase is from Birr 325954 to 709872.
5. Primary co-operatives have the freedom to sell the produce collected from the farmers directly to the traders or to the co-operative union. It can be observed that, out of the 6 sample co-operatives, only 2 societies is distributing the produce through the co-operative union; the remaining 4 co-operatives are selling their produce through the traders. This is not a good trend and efforts must be taken to sell the produce through the unions, because unions take efforts to fetch high price to the produce of the farmers
6. The price paid to the farmers for teff by society A for various study period shows that during all the years of study, the society was able to provide 5 to 10 birr per quintal more than the market price. Society B also was able to give 6 to 10 birr higher than the market price per quintal to the farmers. But compared to society A, the price given to the farmers for teff by society B is low. Society C is also able to provide 4 to 5 birr more than the market price. Compared to society A, the price given by society C to the produce teff is low. Society D was able to provide 5 to 10 birr more than the market price. But compared to the price provided by society A for teff, the price given by society D is very low. Society F handled teff only during the last year of the study. It is able to provide birr 10 more than the market price to the farmers.
7. Price paid to farmers for wheat by society A shows that the normal difference paid by the society per quintal, compared to the open market price was Birr 5. This difference arises in all the five years of the study. The price range for Society B was 3 to 5 Birr for the above study period. But compared to society A, the price paid by the society was low. For example, for the year 2004-05, society A paid Birr 150 per quintal, whereas society B paid only Birr 135 per quintal. The price paid to farmers for wheat by society C was fluctuating over the study period. The price range per quintal over the market price ranges between Birr 3 to 8 per quintal. Again, compared to society A, the price paid by society C for wheat was comparatively low. The price paid by society D for farmers is given in the above table. The price difference with open market is Birr 5 to 10 per quintal. Society F dealt with the procurement of wheat from members only during the last year of the study. The price difference was Birr 10, compared to the open market. During the year 2004-05, only society F paid the highest price for the farmers for wheat.
8. Only three societies, namely society A, C, and D handled barley. The price paid to barley for the farmers by society A shows that the price difference was Birr 5, compared to the open market during all the years of study. Society C handled barley only for the last three years of the study. The price difference for barley provided by society C, compared to the open market varies from Birr 4 to 7 per quintal. The price difference per quintal for society D ranges between Birr 5 to 11 per quintal. Among the three societies, which handled barley, society A paid the highest price for the last year of the study.
9. With regard to distribution of seeds, only during the last year of the study, they have distributed seeds. Only society A, C, D, and F have distributed seeds to the farmers.

10. With regard to the distribution of fertilizers (DAP) by sample co-operatives. During the year 2001-02, only societies B and C distributed DAP. During the year 2004-05, all the sample co-operatives have distributed DAP. The highest performance was shown by society A followed by society D and E.

11. During the year 2001-02, no sample society has distributed urea. During 2004-05, all the societies have distributed urea. The performance was highest in the case of society A followed by society D.

12. The total earnings of the sample co-operatives through fertilizer commission by society A shows that the society earned the earnings only for the last three years of the study. The commission earned was increasing year after year. Society C has earnings through fertilizer commission and other sources. The society earned highest earnings during the year 2001-02 and for the last year of the study, the earnings came down. The total earnings of society D fluctuate over the study period. The earning was highest during the year 2003-04 and lowest during the year 2000-01.

13. The marketing efficiency of sample co-operatives has been analyzed from the data collected from sample co-operatives, which were discussed earlier. To supplement the society information relating to marketing efficiency, the members of the co-operatives have also been contacted and information have been collected from them. The land holdings of the farmers are located in far away places and transport is a major problem for the farmers to undertake their agricultural operations, to bring inputs and to take the produces to the market. A vast majority of the respondents (98.6%) have used animal source as the transport arrangement. The major animal source is donkey.

14. The farmers were asked to mention the bringing of produce after the harvest. 58.6% of the respondents gave the opinion that they bring the produce to the market immediately after the harvest.

15. The respondents were asked to mention the agency through which they sell their produces. Majority of the respondents (60%) have pointed out that they sell their produce through the co-operative, 29.3% have told that they sell through private merchants and the remaining 10.7% sell their produce through the local market.

16. The price difference gained by the respondents for teff and wheat shows that for teff the price difference of 160 – 220 was gained by 22 respondents in the case of co-operatives and 19 respondents in the case of open market. 13 respondents from co-operative and 7 respondents from open market got the price range of above 250 Birr for teff. In the case of wheat, 14 respondents from co-operatives and 7 respondents from open market got price range of above 150 Birr. It can be concluded that the respondents who gained in price difference was high in the case of co-operatives than open market.

17. The respondents were asked to give their opinion relating to the purchasing performance of their co-operative. 41.3% of the respondents gave the opinion that the performance of their co-operative relating to purchasing is good, 40.7% of the respondents gave the opinion fair, only 10% of the respondents told the performance as bad.

18. Co-operatives in this region are providing better price to the farmers for their produces. It can be observed that only 20.7% of the respondents gave the opinion that the performance of the co-operative relating to price for output is bad.

19. The co-operatives are supplying inputs like seeds, fertilizer, etc for 36.4% of the respondents, the performance of the co-operative relating to price for output is fair and for 22.9% of the respondents, the performance is good.

Conclusion

The survey has been undertaken among six primary co-operatives located in Ambo woreda. The age of the co-operatives vary with each other. The commodities handled by the co-operatives are teff, barley, and wheat. With regard to input distribution, only four societies have been distributing seeds to the farmers. All the co-operatives are distributing DAP fertilizer and urea to the farmers. No other input distribution activity was undertaken by the co-operatives. Except one co-operative, all other co-operatives are selling the produce of the farmers through the private traders. Only one co-operative is distributing the produces through the co-operative union. Almost all co-operatives are able to provide better price to the farmers than the open market price. Primary co-operatives do not own their transport vehicles and this is a problem for the farmers. Out of the six co-operatives, four co-operatives have adequate working capital and for procurement operations, they get their finance from commercial bank of Ethiopia. Through this process, they disburse immediate payment to the farmers. The cost of marketing operations of all the primaries are comparatively lower than the private traders. The major marketing services provided by the co-operatives are distributing inputs and selling the produces. The co-operatives are yet to undertake transport arrangements to the farmers. Almost all the co-operatives provide storage facilities and they immediately sell the produce to the wholesalers. To conclude, the marketing efficiency of the majority of sample co-operatives is good and they have to provide transport facilities to the farmers.

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Trends and challenges for Co-operatives and Social Enterprises

Borzarga, Carlo and Spear, Roger editors, (2004) Edizioni31, Fondazione Cariplo, Trento, Italy. ISBN 88-88224-19-X

Although readers may want to challenge the idea of reviewing a book that is already five years old I must confess that I had missed this book and am grateful for the copy sent to me by Enzo Pezzini of Conferazione Co-operative Italiane, Bruxelles Office one of the books contributors.

The book commences with a general analysis of the movement and its development and as the books opening chapter by Carlo Borzaga and Roger Spear makes clear this is a realistic scholarly search for the truth not a celebratory work. The editors summarise the books overall findings with a sobering list of three principle challenges facing the co-operative movement.

1. Overall lack of suitable legal Frameworks
2. Lack of available data particularly on the wider social economy
3. Poor management and a lack of entrepreneurship

The work commences with an excellent paper by Gulia Galera reviewing the international context and presenting a review of alternative models and experiences. This is followed by a philosophical and historically oriented piece by Ian Macpherson and two chapters on the developments in co-operative law by Hans Munkner who provides a strong advocacy of the of role in the public interest sector of the Multiple Stakeholder Model of Co-operative. Enzo Pezzini reviews the Statute of the European Co-operative Society.

The second section commences with an exposition of the problems facing co-operatives in Europe. Here Roger Spear presents a thorough analysis of the trends, issues and reversal with some clear conceptualisation followed by an analysis of the movements fight back and revitalisation. I particularly recommend his appendix which provides some satirical humour concerning the nature of capitalism and co-operation at their current points of evolution in various national contexts. This is followed by two chapters from an Italian and Quebec perspective. The third and final section will be of particular value to researchers who want to explore co-operative activity in post communist Eastern Europe. There are chapters on Poland, Serbia, The Czech Republic, Bulgaria, Lithuania and Hungary. The chapters contain a number of informative case studies on the new forms of co-operation that are evolving in this region including credit union, housing and agricultural sectors. The Hungarians are importing some Danish experience as they recover the co-operative idea from past communist distortions. Some of the country chapters have a critical and theoretical perspective such as the chapter from Bulgaria.

Overall this book has made an important contribution to scholarship in the field of Co-operative and Social Economy studies.

Effective Practices in Starting Co-operatives. The Voice of Canadian Co-op development

Emmanuel, Joy and Cayo, Lyn, editors, (2007) New Rochdale Press, University of Victoria, Victoria, Canada. ISBN 978-1-55058-361-8

The Canadian co-operative movement has a long established co-operative sector with at least one (the Sussex Co-operative part of Co-op Atlantic) with origins and continuous trading from the 1840s. In this book the collective wisdom and experience of academic, practitioner and development worker is brought together to reflect on the key principles enabling new co-operatives to get started and to continue to grow effectively. The books first chapter by one of the editors Jo Emmanuel, refers to Prof Ian Macpherson's model of the stages of co-operative development, namely, a life cycle in five stages; formative, stabilizing, building, strategising (either because of significant crisis due to internal or external circumstances), and finally reformulating. (Emmanuel and Cayo, 2004, p7) This life cycle framework as presented here by Ian does not reflect adequately the co-operative movements' development reality. What it misses is precisely the stage in co-operative development that most clearly characterises the movement's development stage today, namely stagnation. There is also recent empirical support for renewal that can but does not always follow from the strategising stage in Ian's model. Often such 'reformulating' has led to de-mutualisation or privatisation rather than renewal.

In a sense it would be unfair to criticise the book for not dealing with the issue of stagnation if its focus was only upon the small start-up co-operative and its early development. But in fact it does introduce issues of growth with a small section looking at the UK Co-operatives. Here a criteria for auditing performance was introduced. Unfortunately the degree of transparency in reporting and issues of external auditing of the quality of the data were not discussed. The lack of any actual data on the UK criteria was disappointing but given the very low level of member participation in the consumer societies who are members of the Co-operative Group perhaps such reticence is unsurprising. We desperately need a candid analysis that does not gloss over the failures and challenges of the modern co-operative in the stages of advance development where a situation of stagnation and even retrenchment are maifested. Thus maintenance of unity during growth and the overcoming of managerialism and demutualization are not raised as development issues. The big development question globally is how to rejuvenate and energise the co-operative movement. It is not raised in this book and to that extent the book is a missed opportunity.

Nevertheless the book does have real strengths. The case studies and chapters on effectiveness based on first nations people, other marginalised communities and women have much of value that provide lessons that are transferable beyond the boarders of Canada. There are many valuable checklists and practical guidance for social entrepreneurs working at the micro and community level business. The last section of the book develops tools for supporting small co-operatives which many practitioners and development workers will find useful. I was particularly pleased to see the check-list by Vanessa Hammond entitled "Integrating Co-operative Values and Principles" it asks many challenging questions for the application of the Co-operative Identity Statement to small and large co-operatives alike. These questions also provide a useful framework for ongoing research in the critical question of defending and developing the co-operative identity.

The book makes a useful contribution to the start-up and early development stages of small to medium sized co-operatives and raises issues that will stimulate some interesting research questions.

Comparative Third Sector Governance in Asia. Structure, Process and Political Economy, Nonprofit and Civil Society Studies.

Hasan, Samiul and Onyx, Jenny, editors (2008) An International Multidisciplinary Series, Springer, New York. ISNB 978-0-387-75566-3

This is a book of impressive scholarship bringing a very clear range of methodological and disciplinary approaches to bear on a dense and extensive empirical survey led research programme. The topic of third sector governance covered six Asian nations including three of most populous nations on earth. The books structure is helpful in commencing with a setting section giving the background to the topic in terms of growth in third sector organisations, their legal environments and public perceptions. Given the variety of political, cultural and social contexts the term 'governance' with its implication of some form of transparent participatory management is clearly a sensitive issue and this chapter covers the range of meanings and distortions given to the term. The second section deals with an empirical description and analysis in three chapters covering structure, process, accountability and performance. In the case of performance criteria 492 organisations were surveyed. The findings are given in great detail but overall China was found to be the least likely to use formal performance indicators (59%) with India (89%) and the Philippines (92%) most likely too.

There is a fascinating theoretical section providing perspectives covering comparative organisational analysis, political economy with a very fascinating chapter exploring traditional and informal third sector collective governance methods and the gradual continuum rather than clear break between traditional informal and the development of formal legal incorporation. The three organisational types appear to reflect the civil service model familiar to mainstream Co-operatives in the Northern Hemisphere but in my observations also dominant in a formal sense at least throughout the world. The Greater Leader model is next (referred to as the driving force model) and thirdly the democratic model which is seen as important in its participatory style for the wider development of civil society in the countries surveyed. The political economy chapter does a great job in tracing the issues of land ownership, kinship and colonialism and post colonialism impact on third sector organisations (TSOs). Samuil Hasan concludes this chapter with a rather depressing but no doubt realistic perspective on the difficulties for developing robust governance systems for TSOs in the Asian context. The book concludes with six country reports giving great detail and an extraordinary analysis and insight. For anyone interested in co-operative development in the Asian Pacific region this book is a must. It is a particular challenge to the academy in Europe and the Americas as I know of no comparable study of our own TSOs and their governance.

Integrating Diversities within a Complex Heritage. Essays in the Field of Co-operative Studies

Macpherson, Ian and Mclaughlin-Jenkins, Erin editors (2008) Vol. 2, New Rochdale Press, University of Victoria, Victoria, Canada. ISBN 978-1-55058-365-6

This is an interesting indeed in places controversial book with significant contributions from many of the most eminent writers, academics and practitioners in the field of co-operative studies. This review is necessarily a long one which whilst referring to the essence of each distinguished authors contribution in no way pretends to reflect the real substance of their paper's. Indeed such an approach as adopted here runs the real risk of possibly distorting the authors. In making amends in advance of this possibility let me state that this is an important book raising many issues of great relevance and deserves a serious reading by all interested in co-operative identity, history, sociology, management, organisational development, and its evolving role in education and the development of civil society.

The book has three sections entitled: 1 Understanding Co-operatives; 2 Co-operatives and Co-operative Movements in Context, and, 3 Considering Co-operative Studies. In the first part we have a defence and development by Daniel Cote of the dualist model of co-operative management and governance (Cote, 2008, pp 8-10), whilst Spear focuses on the dynamics of social and collective processes governing entrepreneurship in a worker co-operative and social economy context (Spear, 2008, pp 52-53). The approach of Mirta Vuotto is to focus more on issues of managerialism and organisational culture and values and the formers ability to dominate the democratic governance in her case study of the co-operative banks performance during the financial crisis in Argentina (Vutto, 2008, pp72-75). The author calls for an increased emphasis on co-operative values by management in their everyday practice. (Vutto, 2008, p78). In the last paper in this section Gárbóf Szabo asserts an essentially economistic approach to the understanding of co-operative identity implying a challenge to the validity of the principle of co-operation between co-operatives in his acceptance of the idea that co-operative identity needs to be developed on the basis of the economic segment of agricultural co-operative activity in which a given co-operative is situated citing the work of Anre Zwanenberg, 1995 (Szabo, p86-87 and 98). The primacy of the economic over other aims is asserted in the call for a research agenda using a comparative analysis, "In order to see the substance of co-operation from an economic aspect." (Szabo, 2008, p104)

The second section of the book starts with a paper inserted on behalf of the eminent Indian authority on co-operation the late Madhav Madane. His paper is an authoritative clear and candid analysis of the generation, development and in parts of the movement degeneration of co-operation from British India up until his death in 2007. The importance of the democratic process in economic activity is one of the papers central themes along with the democratic processes fragility and openness to political manipulation and the corruption of boards of directors within some co-operatives. (Madane, 2008, p 125) Perhaps the solution lies in the quality of leadership as referred to in his earlier quote for the late Will Watkins and in his reference on the same page to the pioneer of the Indian sugar co-operatives, Dr D.R. Gadgil, who distrusted "traditional leaders" (Madane, 2008, p117). His conclusion is that co-operative value based leadership and education needs re-emphasising in a time where conditions require a return to self-reliance. (Madane, 2008, p126-127)

From 20th century co-operative history in India we step back with a fascinating account by Rita Rhodes of the role of philanthropic aristocrats on the British co-operative movement in the 19th century. Many of these aristocrats seem to have been motivated by Christian religious values. Rita notes towards the end of her paper the role of the Roman Catholic Church in Nova Scotia (Rhodes, 2008, p149) which of course was part of the much wider global support for co-operatives and trade unions by the Roman Church following the first statement of Catholic Social Doctrine by Pope Leo the 13th in the last quarter of the 19th century. There is a passing reference to the Neal versus Mitchell conflict and to Mitchell as having the advantage of coming from Rochdale. (Rhodes, 2008, p139) Rather than being an advantage perhaps it should have been a warning given the likely role of Mitchell in the Rochdale Co-operative flourmill in 1862 when the workers, against the wishes of the Rochdale Society Board, were denied profit sharing by external shareholders whom, almost certainly with the connivance of Mitchell, had gained a majority. There is some fascinating material in this paper with insights into English social and political history and the influence of co-operative ideas on the various classes. Certainly the moral strength of the co-operative model clearly enabled divisions within the ruling elite to arise. Certainly not all of the aristocracy and certainly not the industrial elite were as well disposed towards labour as the distinguished figures which feature in this paper. Whether the paper does make a sustained argument for a rethink on gender and the paternalism of men (see Editor p129) – what about Lady Byron (and Eleanor Marx for that matter) – I leave for the reader to decide. Certainly Rita herself makes no such claim but does make in her conclusions an interesting observation that the voluntary assistance of wealthy individuals may be less obtrusive and controlling and easier to phase out as the movement gains self sufficiency than that of the state which has the capacity to develop a much longer term agenda. (Rhodes, 2008, pp 148-149) The Brown and Winstanley paper I will simply pass with the comment that it is depressing to read a paper on globalisation as a context for co-operatives that ignores the internationalism of the co-operative movement and offers no discussion of the concept of globalisation as a deeply problematic idea in its own right.

Brett Fairbairn provides what I personally judge to be the most critically important paper in the book. He explores the importance of culture as it is evolving and impacting on the next generation. He deals with the fundamental social change that has occurred and is still evolving and its impact on co-operative organisation, Co-operatives have generally failed to address the youth question either theoretically or practically and Fairbairn is to be congratulated for raising this issue even if he is perhaps over optimistic in how he sees the issues. Fairbairn asks the right questions and has the humility not to claim to have all the answers. He alone of all the papers puts his finger on the issue of unitary versus dualistic readings of co-operatives as a central issue in co-operative theory. (Fairbairn, 2008, p199) That he does not agree with the unitary view is not the point at least he identifies its presence in the debate rather than totally ignore it and recognises, implicitly at least, that contemporary concepts like lifestyle, brand and employee branding do not necessarily fit within a dualist cultural and structural model of the modern organisation as it tries to respond to contemporary society. Contemporary private capital organisations fail to reconcile the conflicting goals in their market and organisational strategy with the socio-economic goals of their customers. Such a development of the analysis outwards into the competitive environment in which the co-operatives operate might have permitted a more positive reflection upon a unitary reading of co-operative organisation. This might have led to a different conclusion. Far from being “in between” co-operatives are in fact best positioned by their organisational, values and purpose to be embedded in our modern society – more fragmented and networked as it may be (as Brett himself characterised modern society). The conceptualisation of co-operatives as liminal is I feel another reformulation of the essentially dualist perspective that permeates most of the books theoretical material. I do not agree with Brett or the many other authors of papers in this book that the economic can or should be separated and privileged above the social in the management or structure of co-operatives. (Fairbairn, 2008, p201-202) Rather I would want to suggest that such privileging belongs to an economistic reading of the world that is itself an ideological justification for relations of production and distribution that the co-operative model expressly challenges. However the papers outward rather than inward looking preoccupation with culture rather than structure is a breath of fresh air and Brett Fairbairn is surely correct to argue that there must be more to democracy than the formulation of one-person one vote. (Fairbairn, 2008, p219)

As if in answer to Brett Fairbairn Stephen Yeo provides an exhaustive treatment of the subject of democracy from a British perspective that nevertheless does not actually refer to the extent of the democratic deficit in the context in the UK consumer co-operatives. Stephen Yeo cites Watkins book and his comments on democracy (Yeo, 2008, p224) Yeo however ignores Watkins own qualification that Unity was more important than democracy in the co-operative. After a wide-ranging review of theory and practise the paper fails to consolidate any clear agenda. It does not consider, despite its breadth, the ways in which people today make their feelings heard. In particular the impact of marketing and technology were ignored both as agents for and enemies of democracy. The manipulation and restraining of co-operatives via legislation by the state and political intervention and the actions of boards themselves together with the impact of managerialism could have been discussed. The issue of culture and communication in the modern world needs to be the focus for researching how to overcome the democratic deficit. Yet Stephen Yeo ends with a rather surprising call for research into the role of Co-operative and Mutual Enterprises (CMEs) as the mechanisms for modern democracy. Given that CME’s have not resolved their own issues concerning democratic deficits it seems unlikely they can become surrogates for a wider democratic project. One justification however might be that as Brett Fairbairn writes there is more to democracy than voting. Empowering community and individual through economic autonomy is certainly one important dimension of democracy in a wider sense of economic democracy and indeed in this paper Yeo recognises this (Yeo, 2008. pp 239-240).

Section three "Considering Co-operative Studies" open with a staff report from the Centre for Co-operative Studies University College Cork outlining the range of achievements and giving something of the sense of their strategic approach and the extensive support for distance learning they have received from the Irish Credit Union Movement. Cork has an enviable range of research fellows across a wide range of disciplines from business management, psychology anthropology, law, finance, geography sociology and economics. They have built up from Diploma to Batchlor and finally a Masters programme in Co-operatives and Social Enterprise. I was invited to launch the MSc Summer School this year and thoroughly enjoyed the engagement with the high quality students and staff involved on the programme. It was a pity however that a wider review of these programmes and centres was not undertaken. Given the Canadian background to this publication the experience of the St Mary's Masters in Co-operative and Credit Union Management might have been included. Our Leicester programme – the first Masters in Co-operative Management and Organisational Development (in English at least) by Distance Learning is winding down to a close in 2009-2010 with just some forty plus graduates across fifteen countries. But why things go wrong can be instructive too. Certainly the record of the movements support for management development and research into management development is nothing to celebrate.

Professor Panu Kalmi has done a great service in his systematic review of the application of mainstream economic theory to research into co-operatives as applied to the worker owned sector. This is a balanced and for the non-economist accessible review of some quite complex ideas and models. I was left wanting more and was rather frustrated that the 'old institutionalist' position was not considered and that the analysis was not broader to consider the wider co-operative project. Prof Kalmi rightly pointed to a real issue for all academic researchers engaging with the field of Co-operative Studies of being credible within their disciplines. Here he points to some aspects of economic theory that enable the new researcher to pursue their normative interest and remain credible within economics. However a contrary position is developed in the following chapter by Jean Francios Draperi entitled 'The Ethical Foundations and Epistemological Position of Co-operative Research'. Here we have asserted the autonomy of co-operation as a separate body of thought with its own epistemological methodology and tradition outside the academy and its dominant Functionalist and Marxist paradigms. (Drapier, 2008, pp326-329) This is a very important contribution indeed and one which has influenced the development of our own research methodology at University of Leicester where action centred research is very much led by a participant observer approach. Drapier writes,

> *"What defines education and emancipation that is specific to co-operatives and the Social Economy is that the same person (s) carries out the action-research, which combines the two occupations – exercised professionally or otherwise – of social economy researcher and actor." (Drapier, 2008, p332)*

Ideally at least, according to the author this approach, rooted in shared values, (Drapier 2008, pp333-334) avoids the sectarianism of one best way. This leads to a rich variety of forms, whose participants notwithstanding, often do not appreciate that the co-operative movement has its own school of thought. Drapiers call for the co-operators themselves recognise that alongside their social movement is a separate and important school of thought addresses directly and radically in positive terms the question some would say problem of the validity of co-operative studies as a field within the academy. Drapeir concludes his paper with the rhetorical question "Could the co-operative movement continue to exist without its own approach for knowledge production?

The two remaining chapters attempt the task in different ways of summary. Stephen Yeo attempting to summarise the theorising and Ian Macpherson the context and contents. Stephen Yeo starts with seven questions all interesting and relevant in themselves but surely too much for a single paper possibly even a single book. It's an erudite and interesting chapter but one is left not quite clear as to what the conclusion is either on the individual starting question's or the unity of the whole? Ian Macpherson rightly charges the movement with almost ignoring the academy and the difficulty that attitude has created for those academics who like Ian have strived to set up centres or courses or research projects dedicated to the field of co-operative studies in whatever context. (Macpherson, 2008, p393) Ian gives an excellent sketch of the strands of experience and contributions to co-operative practice from across the world arriving at the contemporary global context of the movement and its management. Reflecting on the cultural and other variables that seem to enable different forms of co-operative more successful in some regions than in others, Ian posses the question "What cultural contexts make co-operative development easier? More difficult?" (Macpherson, 2008, p407) In concluding the book Ian notes that co-operative studies must first be concerned with the regulation of how it is conducted, how the ongoing relationships between those who conduct research and the practitioner are managed (recognising that they are often the same person). Ian asserts that much of co-operative studies is a kind of community based research (Macpherson,2008, p435).

Ian is equally clear that research must if it is creating knowledge inform teaching which, given the difficulty of finding any classes in co-operation (a point Ian made earlier in his paper), is a very real challenge. Ian's solution is to adopt the new technologies. I conclude my review with Ian's papers closing words.

> *"The movement exists in a bewildering diversity of communities all around the world. It needs a community of researchers and activists to explore its work and accomplishments, its failures and possibilities. They should be brought together systematically and collaboratively in the field of Co-operative Studies" (Macpherson, 2008, p437)*

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