

# Co-operative principles as ‘action recipes’: what does their articulation mean for co-operative futures?

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## Abstract

*This paper offers a theoretical and empirical analysis of how co-operative principles are instituted at the level of organisational practice. Theoretical approaches suggest organisations are composed of both explicit rules and tacit norms (cf Reed, 1992). However, co-operatives are an exemplary case of how norms might be formalised within a particular organisational structure. A mail survey of senior staff in co-operatives in the Australian state of New South Wales is used to explore the extent to which these norms are articulated in practice. Survey results and financial data drawn from official sources are then used to consider what the findings might mean for the future of co-operatives in increasingly competitive markets.*

## Introduction

Co-operatives are organisations registered under relevant legislation and that follow an approved set of rules and regulations. In Australia legislation is regulated by state and territory governments, although there have been recent efforts to harmonise important aspects across Australia. While a co-operative’s rules help it comply with the legal requirements as prescribed in the legislation, they are also seen to inscribe broad co-operative values into the organisation, such as mutual trust, self-help and communal benefit. This extended view of a co-operative is one adopted by the International Co-operative Alliance (ICA), a body that represents the co-operative movement internationally. The ICA defines a co-operative as an “autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise” (<http://www.ica.coop>). According to the ICA, co-operatives promote their values through a set of seven co-operative principles, which are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for the community. To be recognised by the ICA an organisation needs to conform to its definition, espouse ‘co-operative values’, and adhere to co-operative principles. However the ICA does not have any policing role in the co-operative sector.

In the state of New South Wales (NSW) in Australia co-operative principles have been

adopted in state legislation governing co-operatives (Government of New South Wales, 1997). While adherence to co-operative principles is *not* made mandatory by the legislation, the Act does note that “[i]n the interpretation of a provision of the Act or the regulations, a construction that would promote co-operative principles is to be preferred to a construction that would not promote co-operative principles”. Co-operative values, that is, have been translated into legal forms, and there is at least the possibility of sanction by the regulator should co-operatives fail to conform.

Co-operative principles are thus akin to behavioural norms, defined by Axelrod as patterns of behaviour that are typically observed in particular conditions, and which when broken can earn the violator a form of sanction (Axelrod, 1997). They are rooted in a particular organisational form - the co-operative - in order to operationalise the range of values that co-operatives are said to embody. As the ICA notes “co-operative principles are guidelines by which co-operatives put their values into practice” (<http://www.ica.coop>). Co-operatives are thus themselves socially constructed and exist through social interactions and/or negotiations. Their rules and procedures exist to set a partial context for these interactions, acting as ‘action recipes’ that are filled in through organisational behaviour (Reed, 1992). Thinking of norms as action recipes moves them into a more formal organisational setting than that proposed by Axelrod, and raises an empirical question: how deeply are these norms (co-operative principles) instituted within the behavioural practice of co-operatives themselves?

Broadly, there are two possible answers to this question. Firstly, the principles might be embedded in organisational behaviour as ways that a co-operative differentiates itself from, and competes with, other types of organisation. Secondly, the principles might not be articulated in organisational behaviour. Below we consider two possible explanations as to why. The first is that a co-operative has consciously decided against following them in practice, and is instead pursuing strategies based on power in the market place and not social goals. Or second, a co-operative may only have minimal resources to devote to complying with the principles.

The focus in this paper is on three specific co-operative principles, namely: the education of members, board members, staff and non-members about the benefits of co-operatives and co-operation (the fifth co-operative principle); co-operation among co-operatives (the sixth co-operative principle); and concern for community (the seventh co-operative principle). We chose these principles for two interlinked reasons. First, they might be seen as 'add-ons' to the day to day functioning of a co-operative in that they stress social action as opposed to economic or procedural activities. Second, compared with the other four principles they are relatively difficult for a regulator to monitor. Voluntary and open membership has to be made clear in the rules of the co-operative at time of incorporation; democratic member control is exercised through obligatory annual general meetings and having members on the board; member economic participation occurs through rules and activities (such as discounts or contracts determining the levels of produce to be marketed each year through a co-operative); and in effect the legislation serves to guard the autonomy and independence of co-operatives since it makes them free-standing legal entities. That said the exercise of autonomy and independence, especially in negotiating and managing contracts, raises behavioural issues about how control rights are assigned within co-operatives (Bacchiaga, and Borzaga, 2001). Typically such rights will reside with a chief executive or director, working under the strategic direction of a board drawn from the co-operative's membership. They thereby provide organisational autonomy centred on members. The co-operative principles examined are by contrast typically less visible in rules and procedures.

## Co-operatives in NSW

Collectively co-operatives are economically significant organisations, for example recent research in New South Wales (NSW) showed they turned over \$4.5 billion in 2003 and had net assets of \$1.2 billion. Besides these financial statistics co-operatives also employ a significant number of people (over 12,000 in 2003), have almost 1.4 million members, of whom close to 5,000 are actively involved in running and governing their co-operatives as member directors (this figure far outnumbers the 62 employee directors). Member directors are among the most active members of co-operatives (Passey, 2005). After allowing for the effects of inflation, turnover grew by 73% between 1992 and 2003 and net assets by 56%. Membership rose too, by 54% over the same period, although the number of staff fell by 18%. These aggregate figures mask some important trends. For example, a small number of large co-operatives account for the majority of turnover and assets; 90% of the growth in turnover is accounted for by around 100 primary producer co-operatives (including agricultural co-operatives); and the growth of membership is accounted for by one consumer co-operative.

Besides variation in organisational size, there is a further important distinction, which is embedded in the NSW legislation governing co-operatives. Under section 14 of the 1992 NSW Co-operatives Act co-operatives may be either 'trading' or 'non-trading'. A trading co-operative has share capital and distributes returns on surplus or share capital, although any returns are proportionate to the amount of activity of a particular shareholder and not the value of the shareholding (as would be the case in a non co-operative shareholding organisation such as a listed company). Non-trading co-operatives do not distribute returns to members, other than the nominal value of any shares if and when they are wound up. Instead members of non-trading co-operatives receive benefits such as reduced prices on purchases or services. In mid 2002 there were 186 trading co-operatives in NSW, which disbursed \$14 million in dividends to their members and accounted for 92% of the sector's turnover. Clearly in NSW trading co-operatives are the major economic players in the co-operative sector, whereas the remaining 400 or so co-operatives are economically far less

significant. Later in this paper we use trading status in our assessment of compliance with co-operative principles.

## **Attitudes of co-operative leaders**

The empirical evidence presented in this paper stems mainly from a mail survey of co-operative leaders in NSW. Contact and address details were drawn from the official register of co-operatives in NSW. The register is maintained by the NSW Registry of Co-operatives and Associations, which is part of the NSW Office of Fair Trading. All 766 co-operatives on the register were mailed a copy of the survey along with a covering letter, with the survey addressed to the official contact of each co-operative. Non-respondents were followed-up once by letter. For 36 co-operatives the address details were out of date, and 15 responded to say they did not wish to participate in the survey. In total 203 valid returns were received, a response rate of 27.5%. Just over half the respondents were co-operative secretaries, 10% were treasurers, 9% directors, and 8% chairs. These are typically elected posts in NSW co-operatives, and so the roles tend to be filled by members of the co-operatives. The remaining respondents classified themselves as 'Other'; most typically they were an executive officer, manager or co-ordinator. Comparison of three organisational attributes - annual turnover, the number of members, and trading status - revealed that while respondents are slightly smaller in terms of turnover and member numbers than all co-operatives in NSW, the organisations responding to the survey are broadly similar to the co-operative population of NSW<sup>1</sup>. There were no differences significant enough to impact on the validity of the survey findings.

The questionnaire was piloted with six co-operatives, as a result of which a small number of alterations were made. The questionnaire was rather long. The first sections gathered perceptions of current performance and comparisons with the recent past and asked what the key issues are that face co-operatives over the next year. Information was also collected on the suitability of the co-operative organisational structure for current activities and about the geographical scope of activities. There was also a battery of attitudes questions about co-operatives and co-operation, along with questions on the

motivations for co-operative membership. The main survey findings are briefly outlined below to provide a more detailed context for the assessment of compliance with co-operative principles and because some of these data are themselves used to explain patterns of compliance later in the paper.

## **Co-operative performance**

Respondents were sanguine about the current performance of their co-operatives, with 70% rating it as good or very good. In contrast only 6% rated it as poor or very poor. This picture is dampened a little by the fact that only 51% saw current performance as an improvement on the previous three years; almost two in five (39%) thought they were faring about the same, and 10% actually thought their current performance was worse than in the recent past.

Combining responses to these two performance questions reveals that 40% saw their current performance as good or very good and reported an improvement compared with the recent past – these co-operatives might be seen as 'optimistic improvers'. A further 28% reported very good or good current performance and no change compared with the past three years – these might be viewed as 'consistent'. The 11% that rated their current performance as fair but still an improvement might be termed 'stable improvers'; while the 8% that rated current performance as fair and about the same as the past three years we might see as 'middling' co-operatives.

It is worrying perhaps that while three quarters of respondents saw their costs rising over the next twelve months, fewer than half predicted increases in revenue and only one in three in their net assets. There was even less optimism about people. Around 30% predicted a rise in member numbers and in the activity rates of members. More common were predictions of no change: 42% for revenue, 55% for net assets, 54% for the number of members and 60% for the activity level of the members. However, close to 10% saw their revenue and net assets falling and 12% predicted a fall in the number of members. Only a minority of respondents are able to make returns to members in the form of dividends, of which only one in four predicted these returns would increase over the next twelve months. Most (64%) saw them remaining about the same. Among those employing staff the picture

was similar; two thirds saw employee numbers remaining steady and 24% predicted an increase. Stability or even some sort of decline would seem to be the order of the day if these predictions are borne out. But it would appear that the co-operative organisational structure is not to blame - 64% saw it as the most suitable for current activities. That said, 23% were not sure, and 13% actually felt it was not the most appropriate organisational form for current activities. Among the reasons given were concerns over the inflexibility of the structure and the compliance costs associated with regulation and audit.

Most co-operatives operate locally – 83% report that they work mostly in one local government area, with 11% working across NSW and only 6% nationally. This pattern is likely to be a product of size and/or the type of activity undertaken, although operating beyond state borders is complicated by the different legislative systems operating in each Australian state. Despite efforts at convergence, differences will hamper efforts to work inter-state, and hence most co-operatives will work only in their home state.

### Co-operatives, other organisations and services

Respondents expressed positive attitudes towards co-operatives. Eighty-four per cent agreed<sup>2</sup> that co-operatives do good work; 82% that co-operatives show that people can still work together; and 62% that co-operatives help make the market place fairer (here 29% answered that they neither agreed nor disagreed). Just over half (52%) disagreed<sup>3</sup> with the statement that co-operatives are old-fashioned. However 23% answered that they neither agreed nor disagreed and 22% actually agreed – maybe for them co-operatives being

described as ‘old-fashioned’ is not a negative statement.

In a second question set respondents were asked to choose between co-operatives/mutuals, government, or business as the best provider of a number of different services (see Table 1). Co-operatives/mutuals were not the first choice provider for any service but were rated second in all cases, with the exception of telephone and internet services where they were a distant third. Typically business came out first, however 35% of respondents thought co-operatives/mutuals best for banking services; 34% for community services (the only example of them coming second to government); 25% for insurance services; 21% for superannuation products and policies; and 20% for food retail. The table also shows that between one in five and one in six respondents were not able to choose a preferred provider, but despite this respondents clearly see their organisations as valid and important players in a mixed economy.

### Motivations for membership

Respondents were asked to consider the importance to their members of ten possible motivations for being part of their particular co-operative<sup>4</sup>. Some caution needs to be adopted in assessing responses, since only one informant in each co-operative was asked about the views of the membership as a whole. The responses cannot be said to be reflective of members’ views directly, but instead they are views expressed by a senior figure in each co-operative<sup>5</sup>. However, this information was needed to build a picture of the relative importance of ‘material’ and ‘non-material’ motivations for membership.

The ten items were split evenly between material and non-material motivations<sup>6</sup>. Some

**Table 1: Co-operatives in the mixed economy - % opting for which is the best provider**

Service area	Co-ops / mutuals	Business	Government	Can not choose
Banking services	35.3	42.8	5.9	16.0
Community services	33.9	9.1	40.9	16.1
Insurance products	25.1	48.6	7.7	18.6
Superannuation products/policies	20.5	45.4	18.9	15.1
Food retail	20.0	60.0	0.5	19.5
Telephone and internet services	9.0	50.5	23.9	16.5

were deemed not relevant by many respondents; for example more than half of respondents saw neither 'family tradition', 'the co-operative being the dominant player', nor 'getting the best prices for products/and or produce' as of relevance to their membership. Obviously particular motivations are context-specific. Getting best prices for produce or products will not be relevant to members of a retail co-operative who instead might be motivated by lowering their own outgoings. Similarly family tradition will only tend to count in long-standing co-operative endeavours.

By far the most relevant motivation was 'undertaking activities with like-minded people' – 86% of respondents claimed this was important<sup>7</sup> for their members (see Table 2). Next came 'accessing cheaper goods and/or services' (58%) and 'limited alternatives in their communities' (54%). The remaining reasons were seen by a minority of respondents as important to their members (remembering this includes those responding 'not relevant'). Forty-nine per cent said that it was important for members to 'protect themselves in the market place'; 42% that they were 'committed to co-operative ideals'; 41% that they were 'unhappy with dominant market values and see the co-operative form as a positive alternative'; 38% that it was important for members to 'get the best prices for products and/or produce' and

'to combine social outcomes with economic activity'; 23% thought that the 'co-operative being the dominant player' was an important motivation for members; and finally 19% thought that 'family tradition' was important for members.

Material and non-material motivations for membership reflect the economic and social bases of co-operatives. The ranking of the importance of motivations has a non-material reason at the top ('undertaking activities with like-minded people'), though this is then followed by three material motivations. Motivations ranked five to seven are non-material, eight and nine are material, and the least important ('family tradition') is non-material. Hence, while the responses point to a mix of motivations for membership, it is material ones that tend towards the top of the ranking. Either they are the most important of themselves, or they are more commonly relevant across a diverse range of co-operative organisations and co-operative activities.

The ten responses were aggregated into two new scales. This would aid understanding of the relative importance of material and non-material motivations for membership and later on enable the comparison of member motivations with patterns of compliance with co-operative principles. Response categories were first given a score: 0 for 'not relevant'; 1 for 'not important';

**Table 2: Member motivations (ranked by importance)**

People are members ...	% Respondents		
	Important	Not important	Not relevant
To undertake activities with likeminded people	85.9	10.1	4.0
To get access to cheaper goods and/or services	57.9	11.2	31.0
Because of limited alternatives in their communities	53.8	12.7	33.5
To protect themselves in the market place	48.7	13.7	37.6
Because they are committed to co-operative ideals	42.4	37.4	20.2
Because they are unhappy with dominant market values and see the co-operative form as a positive alternative	40.6	15.2	44.2
To enable them to combine social outcomes with economic activity	38.3	17.9	43.9
To get the best prices for their products and/or produce	38.1	10.2	51.8
Because the co-operative is the dominant player	22.4	21.9	55.6
Because of family tradition	18.8	20.8	60.4

**Table 3: Member motivation scales (% of all respondents)**

Non-material scale	Material scale			Total
	Low	Medium	High	
Low	27.3	10.1	2.0	39.4
Medium	16.7	22.7	13.1	52.5
High	1.0	5.6	1.5	8.1
Total	44.9	38.4	16.7	100

2 for 'fairly important' and 3 for 'very important'. Each co-operative's scores for the five material items were then added up and divided by five to produce an average, which could range from zero to three. These averages were then given labels: scores from 0 to 1 were termed 'low material' (because on average they span motivations from not relevant to not important); those from 1.01 to 2 were termed 'medium material' (spanning motivations from not important to fairly important); and those between 2.01 to 3 were labeled 'high material' (on average spanning fairly important to very important motivations). The same method was used to produce a three point scale from the five non-material items.

There was some concentration towards the low end of each scale, partly due to the numbers of informants opting for a 'not relevant' response, and possibly because there is a sharper distinction between 'fairly' and 'very important' than between 'not important' and 'fairly important' (the scale generally assumes an equal gradation between response categories). Even so, there were some differences between the scales as the final row and column of Table 3 reveal. On the material scale 45% of respondents were classified as low material, 39% as medium and 17% as high; whereas on the non-material scale 40% scored as low, 52% as medium and only 8% high. Thus while the proportions were almost equal at the low end there was variation elsewhere, with twice as many co-operatives falling at the high end of the material scale than at the same point on the non-material scale.

When we cross-link the two scales (see the rest of Table 3) we find that 27% of co-operatives rated as low on both the material and non-material scales (possibly due to them deeming many of the original ten items as not relevant to their memberships), while in contrast fewer than 2% rate high on both scales (suggesting the two scales are measuring different aspects of motivation among

members). Perhaps unsurprisingly there was some gravitation to the middle: 23% rated medium on both; 30% were medium non-material and either high or low material; and 16% were medium material and either high or low non-material. Only 2% were high material and low non-material, and 1% were high non-material and low material. These last two relatively low percentages, along with the relatively large number of medium scores suggest some limits to the distinguishing power of the scales and/or they point up the complexity of motivations for membership of co-operatives. That said, as the discussion below reveals the scales do correlate with differences in adherence with co-operative principles.

### **Co-operative behaviour – are co-operative principles adhered to?**

We now consider whether or not respondents report complying with the final three co-operative principles under investigation here. The principle of educating members, board members, and staff and non-members about the benefits of co-operatives and co-operation is part of a notion of co-operatives as a movement that seeks to combine economic and social objectives. Co-operation among co-operatives also sits within this idea of a broader movement, while a concern for community stresses social outcomes stemming from a commitment to sustainable economic development. It is in these three principles therefore that the predominantly social objectives of co-operatives are manifested. The survey found different rates of compliance for each, as summarised in Table 4.

There is only limited compliance with the fifth co-operative principle. Only just over half of respondents (53%) report committing resources of time and/or money towards the education, training and providing of information for members, staff and/or directors, although this is double the rate (27%) of those doing the same

**Table 4: Compliance with co-operative principles**

	<b>% Complying</b>
Co-operative principle 5: education on benefits co-operatives/co-operation	
Resources on internal education	52.5
Resources on external education	27.2
Co-operative principle 6: co-operation between co-operatives	
Member vertical network	45.3
Member horizontal network	65.8
Co-operative principle 7: concern for community	
Supports community activities	80.7
Believes co-operative should have special relationship community	72.8

for non-members. When we combine the two we find that almost a quarter (22%) do both, 30% do one only, but 38% report doing neither. Hence, as measured in the survey, nearly two in five co-operatives are failing to comply at all.

To analyse co-operation between co-operatives we gathered two pieces of information. First we asked about the formal networks to which co-operatives might belong. These links typically comprise membership of a peak body or a wider network, and are vertical in nature. Often co-operatives will join such networks to receive information and training, or because a peak will provide a collective voice in policy circles. Second we asked about joint working in horizontal networks with other co-operatives (and more broadly with other social economy organisations such as nonprofits<sup>8</sup>). These links will range from occasional co-operation to formal trading arrangements with other co-operatives, although these different degrees of joint working are not separately captured in the survey. However it should be noted that 35% of respondents indicated that their co-operatives worked regularly with other social economy organisations, which may indicate the degree of strong (and possibly formalised) horizontal joint-working relations. In the survey these links potentially relate to a wider range of organisations than just other co-operatives, so in that regard this measure is a less rigorous test of compliance with the sixth co-operative principle than if we had asked only about links with co-operatives. However we were keen to see how co-operatives were networked more broadly in the social economy.

Horizontal links were the most common. Two-thirds of co-operatives reported working with other co-operatives and/or non-profit organisations, about half of which do so

regularly and half only occasionally. The remaining third report working solely with their members. Fewer than half of the respondents (45%) report belonging to a formal (vertical) network. The vast majority of those that did so were members through choice, with only around one in three having to belong to this kind of network as some kind of sector or sub-sector requirement. Three-quarters of co-operatives that belong to a vertical network are eligible to vote or have some other formal say in its operations and activities, suggesting a high level of internal democracy within such networks, if only in a strictly formal sense. Most commonly a co-operative's vertical networks were NSW-wide; although there were many examples of regional and national levels. Much less common was membership of local or international networks. Since most co-operatives work mostly in one local government area, those in membership of formal networks were linked more widely than their day to day geographical scope of operations.

Combining these two measures of co-operation reveals that 23% were not working in either way with other co-operatives (and/or non-profits), leading us to conclude that a sizeable minority of co-operatives are not conforming to the sixth co-operative principle. Only one in three co-operatives (33%) reported membership of formal (vertical) networks and working either regularly or sometimes with other social economy organisations (horizontal networking). A further 30% rely on horizontal links only – suggesting that there is very limited vertical networking among co-operatives in NSW.

We find markedly higher levels of compliance with co-operative principle seven. Eighty one per cent of respondents report supporting community activities, with 16% saying they do not. We also asked informants

a values question - whether they thought their co-operative should have a special relationship with its local community. There was majority support for this notion, with 73% feeling their co-operative should, although 18% said no, and a further 9% were not sure. Four out of five of those co-operatives supporting community activities thought their organisation should have a special relationship with the local community. In contrast 52% of those co-operatives that did not support community activities also did not think their organisation should have a special relationship with the local community. However, 37% of these non supporters did, suggesting some kind of disconnect between values and behaviour in respect of this co-operative principle. It is possible of course that these co-operatives are not able to translate values into behaviour due to limited resources. The paper now turns to speculate on this kind of issue.

## **Analysis – assessing patterns of compliance**

We now have an answer to our empirical question about how deeply these norms (co-operative principles) are instituted within the behavioural practice of co-operatives. Simply, some are more deeply instituted than others. There is markedly higher compliance with a concern for community than with education about co-operatives and co-operation (both internal and external to the organisation) and with co-operation among co-operatives. Three organisational dimensions are assessed in trying to understand this pattern of compliance. The first two (trading status and motivations for membership) are geared towards our first likely explanation for non-compliance with co-operative principles, ie those not following the principle(s) have consciously decided against doing so in practice, and instead are pursuing strategies based on economic as opposed to social goals. The third dimension tries to unpick the other possible reason for non-compliance that we posited, which was a lack of organisational resources. Here we assess the findings by two organisational size measures, ie annual turnover and the number of members.

We initially used regression modelling to examine differences in compliance with each co-operative principle. Regression is a multivariate statistical technique that calculates the impacts of independent variables (in our case trading status, member motivation scales,

turnover, and membership) on differences in a dependent variable (compliance or not with a co-operative principle). Regression allows the effect of each independent variable to be assessed when differences in other independent variables are held constant, which is important in cases where independent variables might be correlated and in essence be jointly operating to affect the dependent variable. In the regression modelling we could for example control for differences in organisational turnover, membership and member motivations, to assess the impact of trading status alone; we were also able to control for other factors to assess the impact of differences in turnover alone. The results from the modelling showed that the organisational characteristics (independent variables) were correlated, that is they did not have strong effects on their own but instead they were interacting in their impacts on compliance rates. Consequently, we decided to undertake and present bivariate analysis, which is admittedly less powerful than regression modelling but in many ways easier to comprehend. As a further aid to the reader in assessing the importance of this analysis we note where any relationship proved to be statistically significant

### **Trading status**

Some authors have emphasised an important distinction between co-operatives that have shares and those that do not, arguing that the latter will place greater emphasis on social objectives than the former (Quarter et al, 2001). We draw the net tighter by distinguishing between 'trading' and 'non-trading' co-operatives. We have already noted the concentration of economic activity in trading co-operatives, and we adopted trading status as a distinction between primarily economic co-operatives (those with trading status) and those with primarily social objectives (non-trading co-operatives). This in turn led to our first hypothesis.

*Hypothesis 1: Trading co-operatives prioritise economic objectives and compared with non-trading co-operatives will be less likely to follow the three co-operative principles under analysis.*

Trading co-operatives are more likely to provide education about the benefits of co-operatives



**Table 5: Compliance by economic or social objectives (trading status)**

	% Respondents complying	
	Pursuing social aims (non-trading)	Pursuing economic aims (trading)
Resources on internal education	48.9	62.7
Resources on external education	23.7	30.5
Member of a vertical network	45.2	45.5
Member of a horizontal network	69.6	57.6
Supports community activities	82.6	74.1
Believes co-operative should have special relationship community	72.9	67.3

and co-operation internally (63%) and externally (31%) compared with non-trading co-operatives (49% and 24% respectively). While we look in detail at organisational resources later, we must note here that trading co-operatives are in general much larger than non-traders. For example, the median annual turnover for trading co-operatives is \$649k, and that for non-trading co-operatives is \$110k. This difference is statistically significant<sup>9</sup>. Hence differences in compliance with this co-operative principle might well be due to variations in resource availability and not the result of a conscious choice of strategy.

There is no variation in membership of vertical networks; instead differences occur in the level of horizontal linkages. Fewer than one in three non-trading co-operatives (30%) report working solely with their members, compared with 42% of trading co-operatives. The former are also markedly more likely to work regularly with other social economy organisations than trading co-operatives (38% as opposed to 29%). Overall this means that non-trading co-operatives are better linked with other social economy organisations, that is they exhibit more compliance with this principle. Thirty four per cent work with other social economy organisations and are members of formal networks, compared with 30% of trading co-operatives. In contrast 30% of trading co-operatives report no membership of formal networks and work solely with their members, as opposed to 20% of non-trading co-operatives. Trading co-operatives are also more likely to rely solely on formal networks (15%) than non-trading co-operatives (11%). Finally, non-trading co-operatives are both more likely to support community activities (83% do

so) and agree that they should have a special relationship with their local community (73%) than are trading co-operatives (74% and 67% respectively). Therefore even allowing for their more limited resources non-trading co-operatives would seem much more tied into their communities<sup>10</sup>. There is some support therefore for our first hypothesis.

**Rationales for membership**

We have already discussed a series of possible motivations for being part of a co-operative. Undoubtedly such motivations are more complex than can be captured in a mail survey, however we did see some broad differences along material or non-material lines. We now revisit these two motivation scales in order to examine our second hypothesis.

*Hypothesis 2: Those co-operatives where member motivations are more material will be less likely to conform with co-operative principles 5 to 7 than those where the motivations are more non-material.*

The likelihood of expending resources on education internally increases with rising levels of material motivation<sup>11</sup>, as can be seen in Tables 6a and 6b. For example 42% of co-operatives with low material motives report expenditure on this activity, compared with 63% of co-operatives at the high end of the scale. A similar pattern is seen on the non-material scale; 75% of co-operatives at the high end report this kind of spending, compared with 41% at the low end. In terms of external education there is a different pattern. Here 22% of low material co-operatives report such activity, 32%

**Table 6a: Compliance by material motivation scale (% of respondents)**

	Material motivation scale		
	Low	Medium	High
Resources on internal education	42.0	58.7	62.5
Resources on external education	21.6	32.4	30.3
Member of a vertical network	47.6	44.9	46.9
Member of a horizontal network	64.4	69.7	62.5
Supports community activities	88.1	79.2	58.6
Believes co-operative should have special relationship community	76.5	78.1	50.0

at the medium point, but only 30% at the high end. The profile seems flat, that is the material scale does not discriminate different levels of compliance with this part of the fifth co-operative principle, which is geared towards building public consciousness of the co-operative movement. The non-material scale does however reveal sharp differences - 60% of co-operatives with high non-material member motivations report expending resources on educating non-members, compared with only 22% at the low non-material end of the scale<sup>12</sup>.

Once again there is little to distinguish the level of vertical networking, though variation is evident in horizontal networking. Twice as many high material co-operatives (38%) than high non-material co-operatives (19%) report working solely with members. Indeed, 56% of the latter work regularly with other social economy organisations, compared with 29% at the low non-material end. The material scale is much flatter, with 38% at the high end working regularly with other social economy organisations compared with 30% of co-operatives with low material motivations for membership. Hence, there appears to be a greater degree of horizontal networking as the level of non-material member motivation increases, although testing revealed any

differences were not statistically significant. Support for community activities rises as the level of material and non-material motivations falls, although the gradation is steeper along the material scale. On this scale too a similar pattern is evident on the question of whether co-operatives should have special relations with their communities, with only 50% at the high material end saying yes compared with 76% at the low material end. Here though the non-material scale differs; 92% at the high non-material end agree, compared with 68% at the low non-material end. It should be noted that only the differences along the material scales are statistically significant<sup>13</sup>.

We suggest that there is some support for this hypothesis too, although the findings are different depending on which co-operative principle is being assessed. For example, the higher the importance of non-material motivations for membership the more likely it is that a co-operative will expend resources on educating the wider community about the benefits of co-operatives and co-operation; whereas as material motivations for membership rise in importance so does the likelihood of internal education, though this is likely to reflect differences in organisational resources<sup>14</sup>. Also, as the importance of material

**Table 6b: Compliance by non-material motivation scale (% of respondents)**

	Non-material motivation scale		
	Low	Medium	High
Resources on internal education	40.5	58.0	75.0
Resources on external education	21.5	26.7	60.0
Member of a vertical network	47.9	45.9	42.9
Member of a horizontal network	64.9	65.7	81.3
Supports community activities	85.3	76.8	73.3
Believes co-operative should have special relationship community	68.4	72.6	92.3

motivations rises then the likelihood of providing support for community activities and of agreeing with the idea of a special relationship between co-operative and local community fall. Finally, comparing between scales provides more reason to support the hypothesis. High non-material co-operatives are markedly more likely to expend resources on external education, work with other social economy organisations and believe their co-operative should have a special relationship with the local community than high material co-operatives.

Our second potential explanation for non-compliance was a lack of organisational resources. Simply, some co-operatives will only have minimal resources to devote to activities that are not directly about day to day economic realities. Two resource measures are briefly discussed here – turnover (in five bands) and membership size (in four bands). These are related, since generally the larger the turnover the larger the membership. For example, 70% of co-operatives falling in the bottom quartile (25%) of the range of membership sizes had a turnover below \$100k, whereas 60% of the upper membership quartile had a turnover of \$1 million and more. But this relationship is not necessarily so linear; 20% of co-operatives in the second-lowest membership quartile had a turnover of \$1 million plus, compared with 16% in the second-highest quartile. Therefore while both are proxies for co-operative size, each could operate in a slightly different fashion when considering compliance with co-operative principles.

## Turnover

The very biggest co-operatives are the most likely to expend resources on internal education

(all report doing so) whereas the rate is around 50% for those with a turnover below \$10 million (see Table 7). This is likely to reflect not just differences in resources but also the fact that the largest organisations will be the most complex. However, can almost half of those between \$1 million and \$10 million justify not expending any resources to meet this co-operative principle? As for the education of non-members, the largest proportion (46%) complying is again among those with \$10 million or higher turnover. In contrast only 14% of those between \$100k and \$1 million expend resources for this purpose.

Membership of formal networks increases with turnover; only 25% of co-operatives smaller than \$10k are members of these kinds of networks, compared with over half of those with a turnover greater than \$1 million. Smaller co-operatives are also much more likely to work with their members only; 56% under \$10k report doing so, compared with only 18% of those with a turnover of \$10 million or more. Across all sizes, working regularly together is more common than doing so sometimes (except in the \$1 million to \$10 million band where the rates were the same). We conclude therefore that where horizontal links exist they take the form of strong rather than weak ties.

There was a majority of respondents providing support for community activities in all size bands. The trend was of an increased likelihood of support as co-operatives got bigger, although rates ranged from 75% for those smaller than \$100k to all of those with an annual income of \$10 million or higher. Responses as to whether or not informants thought their organisation should have a special relationship with the local community were more mixed. Again there was a majority saying yes

**Table 7: Compliance by turnover (% of respondents)**

	Turnover band				
	Less than \$10k	\$10k-\$100k	\$100k-\$1m	\$1m-\$10m	\$10m plus
Resources on internal education	47.4	53.3	48.2	52.4	100.0
Resources on external education	26.3	35.0	14.3	23.8	45.5
Member of a vertical network	25.0	43.1	43.4	55.3	60.0
Member of a horizontal network	44.4	55.9	75.9	71.4	81.8
Supports community activities	75.0	75.0	80.0	84.2	100.0
Believes co-operative should have special relationship community	64.7	66.1	70.9	82.1	72.7

in each size band, but figures ranged from around two in three of those below \$100k to over 80% in the \$1 million to \$10 million bracket. Indeed in this latter band the proportion supporting community activities (84%) was very close to that specifying there should be a special relationship, whereas in all other strata there was a difference of at least ten percentage points between the (higher) proportion providing support for community activities and those agreeing that there should be a special relationship with the local community. This suggests that provision of support is seen as an organisational choice as much as, or even more than, as an organisational obligation.

## Membership

We used a four band membership size variable to assess the relationship between the number of members and compliance with co-operative principles (see Table 8). Co-operatives in the bottom (59%) or upper (57%) band were more likely to educate internally than those in the two middle quartiles (48% and 50%). The pattern was similar for educating non-members, with 30% of the bottom quartile reporting doing so, compared with only 21% in the second quartile. Hence, the pattern by membership size is different than that revealed for by turnover, with the smallest and largest membership co-operatives complying at a higher rate than those in the middle of the range.

In terms of formal networks, the main variation occurs in the upper band in which 60% of respondents report membership of a formal network (compared with between 39% and 46% elsewhere). Horizontal networking was both more common and more mixed; 49% in the bottom quartile work only with members, compared with only 18% in the third quartile

where nearly half (47%) report working regularly with other social economy organisations. Once again regular working is more common than doing so occasionally, except in the upper quartile where this pattern is reversed and hence where weak ties were more common than strong ones. Finally, as the number of members grows so does the likelihood of providing support for community activities. Around two in three of co-operatives in the bottom band do so, rising to 98% in the upper band. There was a weaker link between membership size and whether or not a co-operative should have a special relationship with its local community. Around 60% agreed that their co-operative should in the bottom three quartiles, then the rate rose sharply to 87% in the upper band. It seems that only the largest membership co-operatives were likely to see a special relationship with the local community as obligatory and not a matter of choice.

In short, resources do matter, especially at the two extremes of the turnover range. The impact of membership size is more difficult to discern; often only the very largest membership co-operatives stand out. The suggestion is that these two factors do work differently in explaining patterns of compliance with co-operative principles, although both still point to the importance of resource constraints on organisations meeting broadly constituted behavioural norms. That said none of the differences were statistically significant.

## Conclusions

The empirical evidence does reveal that some co-operative principles are markedly more deeply embedded in organisational practice than others. Support for community activities –

**Table 8: Compliance by membership size (% of respondents)**

	Membership band			
	Lower quartile	2nd quartile	3rd quartile	Upper quartile
Resources on internal education	58.7	47.6	50.0	56.8
Resources on external education	30.4	20.9	26.5	27.3
Member of a vertical network	45.5	38.5	43.3	59.5
Member of a horizontal network	51.1	61.9	82.4	75.6
Supports community activities	62.8	83.3	73.3	97.7
Believes co-operative should have special relationship community	58.5	65.0	62.5	86.7

the co-operative operating as a good organisational citizen – is the most common. However principles that relate to a broader co-operative movement (education and co-operation) are less common. In trying to explain why, we tested hypotheses about a distinction between economic and social objectives and about different reasons why members might be part of a co-operative. Non-trading co-operatives – our proxy for those pursuing more social aims – are more likely to work with other social economy organisations and provide community support than their trading cousins. They might of course need to rely on joint working to maintain their activities, especially since they tend to be much smaller than trading co-operatives. That said, they do seem to be pursuing more social aims through adhering to certain co-operative principles through which they are able to embed themselves in their local geographical and organisational communities. The two scales of member motivations also pointed up differences in compliance rates, though again the actual patterns varied for each principle. There were for example no real differences in co-operation among co-operatives, but there were marked variations along the non-material scale in respect of educating the community about the benefits of co-operatives and co-operation. Organisations where non-material reasons for membership were important were more likely to expend resources on this kind of activity. Instead of pragmatic and economic motivations, it seems that increased relational benefits are linked with this important activity for building public awareness of the co-operative movement.

The argument here is that co-operative principles are not only important in a definitional or legal sense, but that they have public policy implications too. Most co-operatives operate locally, and in essence their organisational form enables them to ‘lock-in’ assets and resources within the communities in which they (and by extension their members) operate. The co-operative principles are part of this lock-in, operating as ‘action recipes’ that are followed through organisational behaviour (Reed, 1992). Their maintenance appears important for sustaining a range of economic and social activities (Passey and Wickremarachchi, 2005). A dilution of co-operative principles could have a number of effects. The most dramatic would be to disembed co-operative resources from the very communities and economies in which such resources are generated, such as through conversion to a stock-holding company. Less drastic perhaps but still significant is the potential for an emphasis on economic principles to undermine the ability of co-operatives to lock-in important social resources stemming from mutuality and co-operation. A large academic literature and with it increasing policy interest has stressed the importance of these types of resource in producing a range of beneficial economic and social outcomes<sup>15</sup>. Whether co-operative principles will be more widely adhered to in future, or more accurately whether and how the social and economic objectives of co-operatives might be better balanced raises important questions and challenges for governments, support agencies and not least for co-operatives themselves.

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## Notes

- <sup>1</sup> Among respondents there were slightly more large organisations compared with all co-operatives. For example; 10% of respondents had a turnover less than \$10k, compared with 15% of all co-operatives; and 27% of respondents had turnover greater than \$1 million, as opposed to 24% of all co-operatives. The largest co-operatives did not respond, as shown by the fact that the average turnover of respondents was \$4 million, compared with \$7.2 million for all co-operatives in NSW. However the typical (median) turnover among respondents is \$167k, close to that for all co-operatives (\$174k). The patterns for number of members is broadly similar – a smaller average among respondents (855) than all co-operatives (2,341) but much closer for typical co-operatives (68 among respondents compared with 76 for all co-operatives). For a more detailed comparison we divided co-operatives into member number quartiles and then compared respondents with non-respondents. There are more respondents in the lowest quartile of members (28%) and the top quartile (27%) compared with non-members, and fewer in the third quartile (21%). The pattern for trading and non-trading co-operatives is almost identical – 70% of respondents are non-trading co-operatives, compared with 69% overall.
- <sup>2</sup> Agreed refers to the combined percentage of those answering that they 'strongly agree' or 'agree' with an attitude statement.
- <sup>3</sup> Disagreed refers to the combined percentage of those answering that they 'strongly disagree' or 'disagree' with an attitude statement.
- <sup>4</sup> For each of the ten possible motivations respondents were given four rating options: 'Not important'; 'Fairly important'; 'Very important'; 'Not relevant'.
- <sup>5</sup> Just over half the respondents were co-operative secretaries, 10% were treasurers, 9% directors, and 8% chairs. The remainder classified themselves as 'Other'; most typically they were an executive officer, manager or co-ordinator.
- <sup>6</sup> The statements are grouped thus: 'Material' - To get access to cheaper goods and/or services; To protect themselves in the market place; To get the best prices for their products and/or produce; Because of limited alternatives in their communities; Because the co-op is the dominant player. 'Non-material' - Because of family tradition; To enable them to combine social outcomes with economic activity; Because they are unhappy with dominant market values and see the co-operative form as a positive alternative; To undertake activities with likeminded people; Because they are committed to co-operative ideals.
- <sup>7</sup> Important refers to the combined percentage of those answering that they thought a motivation was 'Fairly important' or 'Very important' for their members.
- <sup>8</sup> See Quarter et al (2001) for a definition and discussion of the social economy
- <sup>9</sup> A Two sample t-test produced a t value of -4.04, p = .000
- <sup>10</sup> Only the difference in support for community activities was statistically significant, and then only at the 90% confidence level: Pearson's chi-square = 2.56, p = .1
- <sup>11</sup> Statistically significant at the 90% confidence level: Pearson's chi-square = 6.24, p = .04
- <sup>12</sup> Statistically significant at the 99% confidence level: Pearson's chi-square = 9.45, p = .009
- <sup>13</sup> Material scale and support for community activities Pearson chi square = 11.8, p = .003; Material scale and special community relationship Pearson chi square = 9.48, p = .009.
- <sup>14</sup> We know that the average annual turnover of co-operatives expending resources on internal education is larger than for those not doing so, and that this difference is statistically significant (t value of -2.39, p = .018).
- <sup>15</sup> The social capital literature is large and diverse. Perhaps the best known publication is Putnam, R, (2000) *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon and Schuster.