



# 1,000 THINGS BOARDS & MANAGERS SHOULD KNOW

## Good Governance Tip #10

### The Co-operative Process

#### INTRODUCTION

What is really so special about a co-operative, and why are those special features so important? Let us start by dividing the world of business into two distinct camps. There are, in reality, only two types of businesses; those which are capital controlled and those which are people centered.

The terms capital controlled and people centered are taken from the work of Edgar Parnell, former CEO of the Plunkett Foundation for Co-operative Studies. According to Parnell, the central feature of a people centered business (PCB) is that it exists to serve the needs of the people who are users of the business, instead of placing investors in the driving seat.

Co-operatives are, of course, the commonest examples of the PCB. Other examples would include businesses such as building societies and not-for-profit organizations such as Oxfam, which aims to raise money to fund Oxfam's development work overseas.

The second kind of business identified by Parnell is the investor driven business (IDB). The basic purpose of the IDB is not about serving the needs of users but about meeting the needs of the investors who own the business; meeting their needs for a good return on investment, through dividends and capital growth. One of the problems facing the IDB is that it is often under pressure to meet short-term objectives to protect itself from the possibility of take-over or to maintain its position in the capital markets. And, it is this short-term focus that is at the root of so many of the world's environmental problems.

#### Us & Them - Two Ways to Run the World

Parnell divided the world of business into two categories. Let's broaden the discussion a little. Let's look at how we try to get things done in general, not just in businesses, but also in associations of all kinds as well as in our everyday life. Like Parnell, we're going to divide the world into two distinct camps.

Like Parnell, we could argue that there are two different fundamental ways of getting things done. Let's try to avoid sociological jargon, and use instead very simple terms to describe these two approaches. There is the 'them' way of getting things done, and the 'us' way.

Let's start by looking at the 'them' approach. We might also call it the 'conventional theory of action'. It is based on the idea that the best way of solving problems and meeting needs is to leave it all to them; to small elites of unusually resourceful, powerful, or wealthy people.

If you think about it, this is the usual way things get done. We have a problem or a need to be met, so we complain a bit and wait around for them to do something about it. In other words, we wait until somebody important (a business person, a politician, an expert of some sort) decides that it is in their own interests to do something about our problem.

The answer to our problem usually comes in the form of a product or service, which is offered to use at a price. It may take a long time before anyone gets around to doing anything about our problem, years, decades, even centuries! But, when it eventually does happen, we simply buy into the new product or service to see if it does indeed solve our problem for us.

The important people, who take action on our behalf, show initiative. They take the responsibility and risks involved in starting something new. The rest of us have little part to play in the process, apart from complaining, and waiting. Our role is the role of shoppers, and patients. We spend much of our lives queuing and the poorer we are the more of our time is spent waiting in lines. We are the passive audience of great events performed by important actors.

Now this is such a widely accepted notion of how things get done, that it is often very hard to see any alternative to it. The vast majority of the world's organizations are 'them' organizations. Most businesses, most governmental agencies, more intergovernmental organizations (like the United Nations), most churches, hospitals, schools and universities, and a high proportion of voluntary organizations are in the 'them' camp. The phenomenon even transcends political systems. Both capitalist and socialist societies are organized on the same 'them' principles.

If 'them' enterprises have such a widespread domination, what else is possible? Do other alternatives exist? This is where the 'us' approach comes in. 'Us' organizations emerge in situations where conventional structures are unable to meet important human needs.

The 'us' approach, which we might call the co-operative theory of action, turns the conventional way of doing things upside down. According to this theory, things get done most effectively when the people experiencing the problems get together with others like themselves and combine their energies, skills, and resources to set up their own organizations. With these organizations, they provide themselves with products, services, or experiences especially designed to meet their common needs.

In other words, the 'us' way of getting things done is for the ordinary people with the needs and the problems (you and me) to combine together and do things for ourselves. 'Us' organizations are designed around the needs of their users, and the users themselves are active in tailoring the organizations to their own special needs. Usually, profits are less important than the quality and nature of the services and the relationships provided by the organization.

Now this is very different from the way most organizations operate. The people in charge of the typical organization have not the slightest interest in using its services themselves. The people in charge of 'them' organizations have other goals to achieve. Their goals are not totally restricted to profits, but may also include self-fulfillment, security, power and influence, freedom of action, and self-esteem (or any combination of the above).

This 'us' approach is also very different from the way most public service organizations are run. Many public agencies were originally designed around their client's needs, but usually they do not invite their user's participation in major decisions. And, because users are not involved in any significant way, the original purposes of the organizations tend to be displaced by the needs of the elites who are in charge.

### **Them (The Conventional Theory of Action)**

Let's try to understand all of this better by taking a closer look at some of the distinguishing features of these two ways of getting things done.

In the 'them' approach to organizing, the first key characteristic is that users are treated as passive objects. Clients and users are generally seen as rather ill-informed, incompetent people who must rely on experts to provide answers to their problems. Because the users are thought to have little to contribute to the management of the organization, it makes sense to concentrate decision-making in the hands of the 'experts' and treat the rest of us as passive objects to be serviced and even manipulated for our own good.

Strangely enough, this is much the same argument used by democratic theorists, such as Dahl and Sartori, who argue in effect that parliamentary democracy can only work because most people don't take democratic values seriously. According to this view, wholesale apathy is vital. Without it the system would grind to a halt.

### **USERS TREATED AS ISOLATED & COMPETING INDIVIDUALS**

The 'them' approach is likely to work best if people relate to the organization as isolated individuals, competing against one another for a good bargain. The competitive quest for one's own self-interest is seen as the most efficient way to meet needs and allocate resources. Pressure groups of users, like consumer associations or trade unions, are discouraged because they create inflexibility in the system, thereby reducing efficiency.

## **THE POWER TO DESIGN & MANAGE THE ORGANIZATION IS CONCENTRATED IN THE HANDS OF A SMALL ELITE**

As a result of this concentration of power, most 'them' organizations end up being designed for the well being of a narrow elite, and the needs of its main constituents are not the prime purpose of the organization. Its prime beneficiaries are the dominant elites and their main interests are not in the particular products of an organization, but in things like profits, return of investment, security, self-fulfillment, and freedom of action.

Some might argue that this is rather a cynical portrait of traditional ways of getting things done. But, it is probable that the most conventional practitioners would say that the 'them' approach is the only sensible way of running an organization.

Parnell criticized IDBs for having a short-term focus on profits. But, let's look at an example outside of the business world. Consider how a great many schools are run:

- ★ The users, children and parents, remain relatively passive in the design of schooling and its governance
- ★ Classrooms are designed as arenas in which individuals follow instructions and compete against one another for a limited number of 'A' grades, university places, and jobs. Co-operative is labeled as cheating
- ★ The design of the whole enterprise focuses less on the development of the talents of its users, than on failing people. The brightest are creamed off, the rest of us are persuaded, by hard experience, not to be too ambitious
- ★ Curricula and teaching methods often seem to be designed more for the convenience of educational managers than for the fulfillment of the learning needs of the students

Clearly, the 'them' approach is a convenient theory of action for the elites of the world. It is also accepted by most of us as inevitable. Most assume that it is the only possible way of getting things done in a reasonably orderly manner.

Ways of implementing this mode of organizing have changed dramatically over the years. In its nastier versions, elite ruled simply because it had the power to club you over the head if you didn't go along with it. Under the more liberal forms of capitalism, elites could remain as elites only if their goods and services competed successfully in terms of quality and price, which made life much pleasanter for the ultimate consumer. Perhaps the most comforting version of this approach to organizing is parliamentary democracy, which makes it possible, from time to time, to swap one elite for another, though it is often hard to find any significant difference between the elites on offer.

This approach to organizing has proved remarkably efficient at getting things done, but only in a limited range of situations and often at enormous social and environmental costs. It is useful for mass-producing tangible, consumer goods and for providing simple services, and is outstandingly efficient at building the wealth and security of tenure of the small elites who call the tune. It is far less successful in important areas of human need, such as health, education, the appropriate development of underdeveloped regions, the husbanding of scarce resources, environmental protection, peace, and security. In these less tangible areas, the conventional approach to organizing often undermines the quality of life for the majority of people. To address such issues, we need to turn to a radically different way of getting things done.

### **Us (The Co-operative Theory of Action)**

The theory of action which is implicit in the operations of effective co-operative is very different from the 'them' approach. Let's summarize the 'us' approach again. We address human needs and problems most effectively when people experiencing those needs and problems combine with others in a similar situation to get actively involved in the design of organizational strategies which will enable them to solve their own problems and meet their own needs. This revolutionary theory of action may be summarized in the following principles of co-operative action.

Organizations. Are likely to be most effective when they practice the following three principles:

#### **ACTIVATION OF USERS**

The people experiencing problems and needs are actively involved in the process of designing services, activities, and structures to address those problems; they are treated as origins of action, not passive objects to be serviced and manipulated.

In other words, people are encouraged to do things for themselves and to acquire the skills needed to run their own affairs. Instead of being passive objects, they become origins of action. The assumption behind this principle is that things get done more effectively when the people using the organization are knowledgeable, conscious of the nature of their needs and problems, and actively involved in seeking effective solutions.

Who are these users who are to be 'activated' in the solutions of their own problems? Consider our earlier discussion of the various categories of beneficiaries of co-operatives. The users who are to be 'activated' might be consumers seeking more effective products or services, workers trying to create worthwhile jobs, farmers, or other producers looking for more effective ways of marketing their produce, or even whole communities searching for ways to increase employment and prosperity in their region.

Most conventionally trained managers might consider the 'activation' principle a recipe for disaster. Used appropriately, however, it can greatly enhance effectiveness. People are more likely to understand and be committed to courses of action they choose for themselves, and the strategies they choose are more likely to fit their needs than the grand schemes handed down from on high by would-be exploiters or do-gooders.

### **MUTUAL AID**

Those experiencing the problems and needs pool their efforts and resources to help one another develop collective solutions to their mutual problems.

In other words, things are likely to work more efficiently if we work together to develop collective solutions. The underlying assumption is that co-operation and mutual support produce better solutions than the attempts of isolated people.

For example, a poor person can meet their need for credit individually by borrowing from a money lender (at exorbitant rates of interest). When they combine with others, they can help set up and run a credit union, which can free her from unmanageable debt.

We can solve our housing problems individually by buying or renting our own house. Collectively, we could set up a housing co-operative, combine our skills and resources to do the work more cheaply, and even design our own neighborhood to meet our needs.

### **DESIGN FOR USE**

The organization itself, its products, services, and activities are self-consciously designed for use (i.e. to be helpful to the people who use its products and services, instead of being designed around the goals of limited elite). The people with the needs and the problems are actively involved in this design process.

If the prime purpose of our co-operative organization is to promote the well-being of its users, it would seem logical for every aspect of the organization to be tailored self-consciously to people's needs. Everything about it, its structure and management styles, its products and services, its facilities and location, its member education programmes should all be designed to address the key problems experienced by the organization's users.

### **Losing Weight (According to Them & Us)**

Let's take a look at a dramatic example to underline the difference between the two approaches. Increasing numbers of people in developed countries have the problem of being overweight. Maybe we should say they think they have a problem, because it is not just those whose health is endangered by their weight who are worried about their size. Plenty of quite skinny people are obsessed about their weight because they have been led to believe that all those emaciated models and movie stars are ideals worth emulating. It is a common ploy of the 'them' approach to try to convince us that we are suffering from a spurious problem best solved by cutting down on your calories, taking more exercise, and buy less rather than buy more from 'them'. But, just think of the ingenious range of products and services that they have invented to help you lose weight and relieve you of your money.

## **THEM SOLUTIONS**

- ★ Crash diets programs, based on the apparently magical qualities of particular foodstuffs (last year it was pineapples you had to eat, the year before it was grapefruit)
- ★ The books and consultations sold by the inventors of these courses
- ★ Tiny frozen meals costing more than normal-sized portions
- ★ Bulk foods and drugs to kill your appetite
- ★ Artificial sweeteners and diet drinks
- ★ So called 'fat farms' luxurious quasi-prison camps where you pay huge sums of money to exercise under supervision and be subjected to starvation diets
- ★ Subscriptions to gyms and swimming pools for exercise regimes of varying degrees of severity
- ★ Expensive surgical treatments like liposuction, the grim medical procedure for sucking away excess fat cells from various parts of your anatomy with a sort of surgical vacuum cleaner. Unfortunately, when you start to put weight on again, you may well be left with pits and hollows where the old fat cells used to be
- ★ You can even get your stomach stapled so that it's physically impossible for you to over-eat

What would an 'us' approach to weight reduction look like? A suitable strategy might look something like this:

## **Us SOLUTIONS**

Groups of people with the same problem would get together to set reasonable and safe goals for weight loss, would give each other mutual support, and share in gentle exercise programs unlikely to shock their poor bodies into a heart attack.

This would be a viable strategy, all at a fraction of the cost of buying ineffective and often dangerous treatments from 'them'. It is also a strategy which groups of people can practice themselves without great expense. Some clever 'them' organizations, however, have recognized the power of this 'us' strategy and are charging us to participate!

## **Food Shopping According to Them & Us**

### **THEM TACTICS**

The aim is to sell as much as possible to customers, regardless of the nutritional value of foodstuffs, with a preference for well-advertised, high mark-up lines that will build company profits. As a result, the following kinds of promotional gimmicks are widely used:

- ★ Display dumps of highly advertised, high margin snacks
- ★ Child-eye-level displays at the checkout
- ★ Prime location for high margin goods

### **Us APPROACH**

As an example, let's look at how a co-operative approach to food distribution might differ from conventional strategies.

In the 1960s, consumer groups in Canada developed an approach to food distribution, which effectively redesigned the process of retailing in the interests of the consumer. A direct charge co-operative is a form of retail store which is open to members only and which sells its merchandise at wholesale prices. For the privilege of buying goods at wholesale, members undertake to finance the business by investing in redeemable shares and paying a fixed weekly fee to cover the operating costs. This fee is calculated by dividing the weekly operating expenses by the number of members.

The weekly fee is kept low by tight management of costs. This may involve housing the store in a simple metal building on an inexpensive site, stacking foods in cut cases on warehouse shelving, and encouraging members to perform all or some of the labour involved in running the store. In some cases, members do the bulk of the shelf-stocking and cleaning on a volunteer rota, in others, most of the work is done by paid staff, but members may be required to pack their own goods, return shopping carts to the store, etc.

Direct charge stores claim to save the consumer money not only by keeping prices down, but also by removing some of the pressures on people to buy. Because the co-operative will receive the income it needs to operate regardless of sales level, it has no vested interest in inducing people to buy more than they need. In effect, it is purchasing for members rather than selling to them. It can, therefore, dispense with promotional gimmicks, such as display dumps of high margin junk foods, child-eye-level displays at the checkout, or prime locations for high margin goods.

The most effective consumer co-operatives have been able to offer distinctive advantages to members, not by copying the competition, but by radically redesigning the process of retailing in the interests of the customer. The active involvement of members helps keep costs down and earns commitment by getting them to participate in group decision-making about the balance between costs and levels of service, etc.

### **A Stimulus to Imagination**

Just in case this is sounding like a one-sided attack on the 'them' approach, it is important to emphasize again that both 'them' and 'us' approaches have their uses. The problem is that 'them' is often used inappropriately, in situations where it cannot possibly work effectively. This happens because most of us think that it is the only approach available to us. It is the inappropriate use of 'them' strategies that lie at the root of some of our most serious problems.

This way of classifying our ways of getting things done can be enormously useful. Above all, it is a stimulus to the imagination and helps us to think creatively about the problems we are confronting. If you try it yourself, you will find yourself looking at problems and tasks with new eyes. Whenever you are confronted by a difficult management problem, or are concerned that your organization is losing its competitive edge, remember to ask yourself how can you use the 'us' approach to redesign this situation.

A useful exercise to open up your thinking is to try to imagine what an 'us' approach might look like in a range of different fields.

- ★ What might an 'us' approach to education look like? How might you redesign learning situations, how might you redesign systems of governance for schools, colleges, and universities?
- ★ How might you improve the effectiveness of a policing system by the use of the 'us' approach?
- ★ How might you redesign our approaches to foreign aid and third world development?

This way of thinking is particularly valuable to established co-operatives of all kinds. A management consultant in Australia makes a living from challenging the thinking of successful credit unions. When a credit union has reached the stage where it seems almost indistinguishable from a bank, he is brought in to goad them into thinking from an 'us' perspective. The process is a powerful method for revitalizing a complacent organization and making it more responsive to the changing needs of its members.

Managing co-operatives is not an easy task. As we have seen, you not only have to run a successful business, you also have to ensure that it continues to adapt to member's changing needs. A pioneer American co-operator, Murray Lincoln, wrote a book entitled *Vice-President in Charge of Revolution* about his experiences working with electricity co-operatives serving farmers. He argued that to remain successful as a co-operative it was necessary to appoint a top executive with the responsibility to foment perpetual revolution. Complacency is the big enemy of successful co-operatives and credit unions. But, you don't have to hire that Australian consultant or appoint a VP in charge of revolution. You can do it yourself by practicing upside-down thinking with the help of 'us'.

For further information on this and other related topics, as well as many co-operative development subjects such as governance, finance and marketing, strategic planning, management, etc, contact the Nova Scotia Co-operative Council at the address below. Our knowledgeable staff of Business Development Officers, located in Truro, Sydney, and Yarmouth are available to assist you in all areas of co-operative development. You can also visit us on the web at [www.nsko-opcouncil.ca](http://www.nsko-opcouncil.ca).



## **Nova Scotia Co-operative Council**

*Making a Difference in Nova Scotia Communities*

PO Box 1872	Ph	(902) 893-8966
339 Willow Street	Fax	(902) 895-0109
Truro, NS B2N 6C7	E-mail	<a href="mailto:nscoopcouncil@eastlink.ca">nscoopcouncil@eastlink.ca</a>