Co-operative Research in 2018: What We Know and Don't Know

Murray Fulton

Centre for the Study of Co-operatives & Johnson Shoyama Graduate School of Public Policy University of Saskatchewan

> ICA2018 The Netherlands Keynote Address July 4-6, 2018





What's the Context?

- Watershed period A widespread dissatisfaction with traditional business and government elites, an unfolding major humanitarian crisis, pending world-wide environmental catastrophes, looming technological developments that will fundamentally transform work and social interaction, . . .
- Lack of agreement on how to deal with these challenges –
 E.g., While some scholars argue we need stronger democratic institutions and practices, others are seriously arguing that we need less democracy
- Within this world, where do co-operatives fit? How do they behave?



What Are the Questions?

What are co-operatives? Why are they important?

- Co-operatives emerged as part of the development of the market/capitalist economy, and out of the conflicting perspectives of liberal democracy (based on personal freedoms and rights) and social democracy (based on social justice and collective rights)
- To the extent that these fundamental institutions undergo change, so too does the context and basis for co-operatives
- Thus, research into co-operatives sheds light on: (1) the way a particular organizational form in this case, the co-operative adapts to a changing world; and (2) the very nature of the underlying change that is occurring

What's to Come in the Rest of the Presentation

- What we know
- It's about governance
- It's about assumptions
- It's about framing





What We Know: Empirical Observations

Co-operatives . . .

- Appear to behave differently than IOFs they often (but not always) price better, provide a wider set of services, take a longer time view, and are less likely to leave a market
- Typically created to address both market and government failures
- Struggle with raising capital, meeting the needs of a diverse membership, and keeping management in line
- This different behaviour both positive and negative is linked to a different governance model one where owners are users and that still largely relies on non-professional board members elected from the membership

What We Know: Theoretical Findings

- Premised on a highly parsimonious set of assumptions that view members & managers as being rational & fully informed
- Predicted behaviour forms the basis for fruitful empirical tests
- Are often normative in nature i.e., outline what co-operatives ought to do
- If co-ops fail to live up to normative expectations, it is usually assumed that there is something that can be tweaked or fixed with a deliberate intervention (e.g., more education of members, managers exhorted to implement a policy)





What We Know and Don't Know

Set of contextual and behavioural assumptions are not descriptive

- The reliance on a highly parsimonious set of assumptions has had obvious advantages, particularly for generating clear hypotheses that can be tested empirically
- But relying on this set of assumptions is often not useful for making policy recommendations
- If members and managers behave in a different fashion from what is assumed, then the recommendations flowing from the analysis are likely to be ineffective
- Of critical importance are power, cognitive capacity, identity and values/norms



Governance Is Bigger Than You Think

Governance: The set of formal and informal arrangements by which power is allocated & exercised in any system with interdependent actors (e.g., nation, network, organization)

- Governance provides a way to understand shifts in authority
- This idea has obvious application to co-operatives among the questions researchers have historically examined are the emergence of co-operatives to address market and/or government failures & the power and influence of managers vis-á-vis boards (and boards vis-á-vis members)
- There are, of course, many other authority sources in the co-op and elsewhere in the economy/society





Why Authority is Important

- The underlying premise of governance is that the allocation of authority has implications for the decisions that are made and the outcomes that are generated
- In short, some governance arrangements some allocations of authority — are better than others at generating good decisions and good outcomes
- Since authority involves power, altering authority is very difficult, since those with power will resist attempts to distribute power to others. Hence, any recommendations that involve shifts in authority can be expected to be contested



Why Authority Has an Impact

- Power and authority have an impact because they determine:
 - Who gets to make decisions, and thus whose values, experiences and interests are given prominence
 - How decisions are made − E.g., How agency problems & coordination and co-operation problems play out
 - The values that are deemed to be important and to have legitimacy
 - What counts as knowledge, and whose knowledge counts
 - Whose vision of the future is given attention
- We can examine power and authority by examining who is making decisions and what guides these decisions



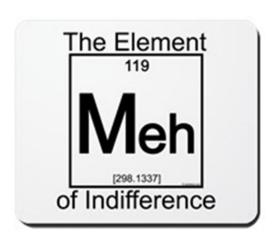


Why Governance is Important

- Suppose we think about a simple co-op with four kinds of members and one of two potential manager types
- The members:
 - Meh − indifferent, apathetic
 - Rabid extreme, fanatical
 - Rabid-C Highly collectivistic
 - Rabid-I Highly individualistic
 - Pragmatists problem solving, trial and error
- The managers:
 - Opportunist self-serving, calculating
 - Pragmatist problem solving, trial and error







Why Governance is Important

- Suppose we think about a simple co-op with four kinds of members and one of two potential manager types
- The members:
 - Meh − indifferent, apathetic
 - Rabid extreme, fanatical
 - Rabid-C Highly collectivistic
 - Rabid-I Highly individualistic
 - Pragmatists problem solving, trial and error
- The managers:
 - Opportunist self-serving, calculating
 - Pragmatist problem solving, trial and error





Possible Governance Outcomes

Member Group	Manager	Manager Hired	
in Control	Opportunist	Pragmatist	
Meh	Х	✓	
Rabid (C or I)	X	?	
Pragmatist	?	//	

√- Good outcome for the co-op

X − Poor outcome for the co-op





What Are Our Assumptions?

- We don't know how well our assumptions about co-op membership, democracy, ideology, and values correspond to what members really perceive and experience
- We model co-ops as business enterprises and/or as political democracies & members as customers and/or political agents, but these are crude approximations
- What really goes on in the minds of members? Board members? Managers?
- What is the role of norms and institutions in behaviour?





What Really Goes On in the Minds of Members?

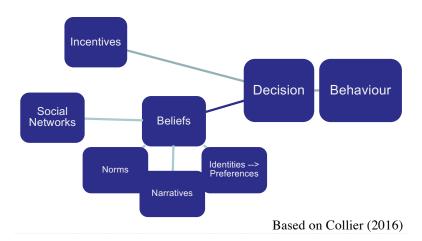
Insights from behavioural economics and cognitive psychology

- Given limited cognitive bandwidth, what issues receive attention? E.g., The farm versus the co-operative?
- What triggers attention a rational consideration of the outcomes or an emotional reaction to the outcomes?
- Are members driven by extrinsic costs and benefits, or by an intrinsic desire to conform to an ideal type?





What Really Goes On in the Minds of Members?



What Really Goes On in the Minds of Members?

Insights from behavioural economics and cognitive psychology

- Do members consider themselves and the co-op together, or do they segregate them?
- How is risk determined and evaluated?
- Why are people willing (or unwilling) to subject themselves to the decisions made by others?
- What if most members find participation in co-operative governance to be challenging and frustrating, and thus will not participate?





What Goes On in the Minds of Board Members/Managers?

Insights from behavioural economics and cognitive psychology

- Given limited cognitive bandwidth, what issues receive attention? E.g., Issues facing the farmer or the co-op?
- What triggers attention a rational consideration of the outcomes or an emotional reaction to the outcomes?
- Are board members driven by extrinsic costs and benefits, or by an intrinsic desire to conform to an ideal type?
- Do board members consider economic and democratic/social issues together, or do they segregate them?
- Do board members consider themselves and the co-op together, or do they segregate them?
- How is risk determined and evaluated?



Assumptions About Interactions

- How are conflicting values and interests balanced within individual members or among groups of members (for example, cheap food vs locally sourced; active participation vs general accountability)?
- How are conflicting values & interests balanced among members of the board?
- How are conflicting values & interests balanced among board members & management?





Assumptions About Interactions

Frameworks

- There are different frameworks we could use to evaluate these relationships
- Principal-agent models focus on opportunistic behaviour
- Stewardship models focus on managerial empowerment
- Cognitive models focus on limitations in cognitive capacity, biases and heuristics in decision making, and the ever-present need to guard against unethical behaviour
- Framework needs to be dynamic; different stimuli may produce different responses



Institutions and Norms: Internal

Things we need to understand better

- The patterns of real governance and norms in co-ops that is, the power systems and ideas that actually affect stakeholder behaviour
- How norms are formed, and why they are formed
- Why some norms remain relatively unchanged, while others change (sometimes quite quickly)
- What constitutes legitimacy, and what is the source of legitimacy





Institutions and Norms: External

Things we need to understand better

- The impact of imported dominant logics e.g., the "needs of the market"
- The impact that different forms of capitalism (e.g., CME vs LME vs . . .) have on co-operatives
- The role of social movements in the creation of co-operatives
- The role of government in helping or hindering co-operatives
- How co-operatives affect government and public policy
- How and to what extent co-ops are linked to national/regional identity



How Are Values and Norms Communicated?

- How do co-ops communicate with their members, and members with each other
- Can co-operatives become "listening organizations"
- Our concepts for understanding communication need to tie together what is communicated (e.g., co-op values or priorities) with mechanisms that affect people – e.g., imagery, behaviour of staff and leaders, architecture, location, symbolism, identity
- What is taken to be knowledge scientific, local, Indigenous?





How Are Values and Norms Communicated?

- We need to relate the answer to these questions to current issues, such as the need to engage today's youth or to allow co-ops to develop in marginalized groups
- Is the co-op story irrelevant, or is it the way it is being told? Are there language choices & frames that have greater resonance with different populations? What are they?





How Do We Understand the Co-operative?

Individual Behaviours versus the Behaviour of the Organization

- Are there particular co-operative configurations that tend to degenerate, to last, to adapt and change?
- Are there patterns to when the inflection points occur, and what kinds of influences make a difference at those points?
- Do we need life cycle models, or evolutionary socio-economic-political models? Could we have both?





Existential Questions I

- How do (should) cooperatives think about success? What does that mean and how is it measured? Do all members have the same general definition of success?
- Can a co-operative become too big? How would this be defined? By whom?





Existential Questions II

- Why is a business model that offers the potential for better social, cultural, economic and environmental outcomes often scorned by business schools and governments? How can we explain the resistance to this model?
- Can co-operatives capitalize on this historical moment when both state socialism and corporate capitalism have low ratings?
- Is this even the right way to ask the question?





Background What We Know It's About Governance It's About Assumptions It's About Framing

Thank You

