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**The Meaning, Importance and Practice of the Co-operative Principles:
Qualitative Evidence from the Australian Co-operative Sector**

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Abstract

This paper explores the underlying reasons for expressed views about the importance and meaning of co-operative principles, from an Australian perspective. The results suggest that even though the 'core' principles of voluntary and open membership, democratic control and member economic participation are confirmed to have universal and fundamental support, some participants considered the principles associated with education, training and information or concern for the community to be pre-eminent. Co-operation among co-operatives is given little emphasis due to a lack of critical mass within Australia. Participants provided some interesting interpretations of some principles, including: the meaning of 'open' membership, the appropriate focus of education and training, and the relevance of advertising to concern for community. Even though some co-operatives do not follow all of the principles, they act as important aspirational aims of "human value" and serve as useful guideposts for achieving desired social objectives through economic activities.

Keywords: co-operative principles, Australian co-operatives

1. Introduction

The concept of the co-operative can be back-dated to 1844 and the *Rochdale Society of Equitable Pioneers*, a group of weavers and visionaries in England who decided to establish a mutual self-help organisation, to advance their cause and achieve social objectives through economic activities (Fairbairn, 1994). As an eventual consequence of the Rochdale principles, the co-operative world governing body, the International Co-operative Alliance (ICA), developed and historically refined a statement on the co-operative identity. The ICA adjusted co-operative principles in 1937, 1966 and 1995 (Hoyt, 1996). In 1995, the ICA released a "Statement of Co-operative Identity" which defined the characteristics and values which are central to co-operative organisation and the principles that embody these (Hoyt, 1996). The statement, in part, sets out the co-operative values of self-help, democracy, equality, equity and solidarity. It is recommended that these values are then put into practice by following a set of seven guiding principles: 1) voluntary and open membership, 2) democratic member control, 3) member economic participation, 4) autonomy and independence, 5) education, training and information, 6) co-operation among co-operatives, and 7) concern for community. The statement was based on practice and successful experiences of co-operatives worldwide, and was intended to shape the structure and role of co-operatives in the twenty-first century (Hoyt, 1996; ICA, 1996).

While some principles, such as concern for community, have been added to ICA principles relatively recently, the first three principles specifying openness, democratic control and the source and management of capital, are fundamental ones and have remained constant within the ICA principles. In essence, the adoption of these principles ensures that the organisation's primary objective is to serve the members, rather than profit maximization, as in non-co-operative business (Hind, 1994). By focusing on a co-operative's members/users some scholars further suggest that the core of co-operative identity lies in three basic principles: 1) user-owner, 2) user-control and 3) user-benefits (Siebert, 1994; Hardesty, 1992; Birchall, 2005, Zeuli, 2004; Dunn et al., 2002; Dunn, 1986). This has also been endorsed by the Agricultural Co-operative Service within the United States Department of Agriculture (Rathbone and Wissman, 1993).

In general, it is thought that the principles play an integral part in the operations of co-operatives, and the ICA principles have been included in legal frameworks of many countries

around the world (Henry, 2002; Somerville, 2007). The principles are also part of legislative frameworks for co-operatives in Australia, for example in New South Wales (NSW), Australia, co-operatives registered under the *Co-operatives Act 1992* subscribe to these principles. Further, it is proposed that the principles will form part of a new *Co-operative National Law* in Australia.

Internal and external pressures influence how intensely these core principles are adhered to in practice. Moving away from these brings into question a co-operative's meaning and legitimacy and diminishes co-operative character over time (Cote, 2000), or, in Somerville's words (2007), can lead towards "degeneration" and loss of distinct identity of co-operatives. However, assessment of the existing literature (Wilson and MacLean, 2012) suggests that there is not significant empirical (as distinct from theoretical) literature on the relevance of co-operative principles, particularly in the current context.

This paper provides an empirical analysis of the meanings attached to co-operative principles and how those principles are instituted at the level of organisational practice in the context of the Australian co-operative sector. Currently there are over 1600 Australian co-operatives, with a turnover of over \$17 billion and 13.5 million members (Denniss and Baker, 2012), yet the literature which explicitly addresses the issue of co-operative identity in an Australian context is practically non-existent (apart from Mazzarol et al., 2012). Given this lack of literature, the purpose of this paper is to explore how the ICA co-operative principles are currently applied to the co-operative sector. The focus of this research is on why and how things occur rather than to what extent. In essence, this research focuses on exploring: (a) an understanding of the meaning of the principles, (b) the importance of the principles, and (c) how closely co-operatives follow the principles in practice.

The paper starts by reviewing existing literature on the relevance of co-operative principles. It then specifies the research design, and outlines the empirical findings of conducting 18 in-depth interviews with members of co-operatives. The empirical findings regarding the meaning attached to seven ICA co-operative principles are first presented for each of the principles separately, and then interpreted in the context of their relationship to selected management practices. The paper finishes by analysing specific dimensions of the relevance of ICA co-operative principles in an Australian context.

2. Do co-operatives adhere to the ICA principles?

A number of authors have provided an analysis of the ICA principles, including MacPherson (1996), Hoyt (1996), Birchall (2005), Novkovic (2006) and Somerville (2007). Most of these and other related studies are mainly theoretical pieces about: how the principles may apply in practice; threats to their application; the benefits from following the principles; and the relationship of the principles to different types of co-operatives. The analysis of the co-operative principles provided by MacPherson (1996) shows just how broadly the principles can be applied, as reflected by the lack of consensus in the literature. Recent research by Wilson and MacLean (2012) found that co-operative values and principles are being applied in varying ways, across a number of contexts and are not being adhered to in any strict sense.

Reflecting on application of the co-operative principles, ten years after the most recent ICA co-operative identity had been introduced, Birchall (2005) wrote that it appeared that there were differences across the various co-operative sectors, with most adherence in consumer, worker, credit, health and social co-operatives (co-ops). Generally, producer co-ops tend to use the three core principles, while insurance and financial services co-ops do not appear to utilise principles. Despite the relationship between co-operative type and the use of principles, Birchall (2011) argued that the first four principles are primary and fundamental, while the latter three are secondary and more aspirational to defining the identity of a co-operative. In general, it is suggested that traditional co-operatives apply the principles in the strictest sense with the mutual interests of members being the central focus of the organisation. At the other end of the spectrum, new-generation co-operatives (Chaddad and Cook, 2004) have moved closer to the form of an investor-owned firm, relaxing the application of the principles somewhat, in particular through the access of external finance.

In terms of the consequences of following the principles, the notion of “co-operative difference” is often touted. Differences include, but are not limited to: differential cost/pricing policies which enhance market orientation; better communication; reduced social costs; enhanced employee effort; gaining lower input prices; improved membership morale; significant positive influence on organisational commitment; and empowerment of members and their communities; see, for example, Hoyt (1996), Novkovic (2006; 2008) and Bernardi (2007).

An overview of the particular empirical studies which were specifically assessing the importance of the principles in practice (Table 1), suggests varying relevance of the principles according to co-operative type and purpose. Two comprehensive studies done by the U. S. Department of Agriculture (Reynolds et al., 1997; Gray and Kraenzle, 1998), on the relevance of the principles for agricultural co-operatives, found evidence of strong adherence to the one-member-one-vote principle. A study by Siebert (1994), also done within the empirical context of agricultural co-operatives, indicated moderate support for the user-benefit and user-controlled principles and a lack of support for the user-finance principle. As Bickle and Wilkins (2000, p.182) noted, results “may seem surprising or even worrying to some”: for example, only one in ten of the co-operatives’ managers included in their own study identified *democracy, equality, equity and solidarity* as the most important co-operative values.

Novkovic (2006) slightly differs from other studies as, rather than provide expert-informed commentary, she reported on the results from a small-scale *quantitative* study, involving primarily Canadian co-ops, analysing how important and how closely co-operatives believe the principles are followed in practice. She found overwhelming support for the importance and practice of the principles. Survey results indicated that over 90% of respondents suggested the principles are important, while over 80% suggested they are practiced through Board decisions. However this study did not tap into the reasons why and how these principles are important or practiced. Other studies which have used primarily a quantitative methodology and large-scale surveys, to examine some aspects of the relevance of the co-operative principles, include Bickle and Wilkins (2000) and Adrian and Green (2001).

Most of these studies assessed members’ beliefs in co-operative principles by applying a five point Likert scale tool (Siebert, 1994; Adrian and Green, 2001; Gray and Kraenzle, 1998), and some used a dichotomy measure in assessing adherence to ICA principles of democratic member control and member economic participation (Kyriakopoulos et al., 2004). For instance members’ beliefs in co-operative principles were assessed by using the following statements: 1) co-operatives should accept anyone who wants to join, 2) co-operatives should practise one-person-one-vote, 3) members should receive patronage dividends in proportion to patronage, 4) co-operatives should support education for members and the public, 5) co-operatives should work together (Siebert, 1994).

Table 1: Empirical Research on the Adherence to the Co-operative Principles

Source/research approach	Empirical setting/types of co-operatives	Findings
Reynolds et al. (1997)	Survey of 1,340 farmer co-operatives in United States of America (USA).	93% used the one-member-one-vote principle.
Gray and Kraenzle (1998)	Survey of 1,156 dairy farmers, all members of the same co-operative from North Central States, USA.	Over 80% of members agree/strongly agree that co-operatives should practice one-member-one-vote. Generally, at least 72% of the members agreed or strongly agreed with co-operative principles.
Siebert (1994)	Survey of 800 members of twelve farm co-operatives in California.	Moderate support for the user-benefit, user-controlled principles, and a lack of support for the user-finance principle.
Hardesty (1992)	Interviews with 13 agricultural marketing co-operatives (USA, mainly California).	Only 3 of the 13 operated on a one-member-one-vote basis. Most have a proportional voting system.
Howard and Kloser (1991)	Interviews with 15 agricultural marketing co-operatives (Ontario, Canada).	Open membership, one of the co-operative principles, was endorsed by 53% of the interviewees; 2% advocated closed membership, while 33% emphasised the importance of 'screening' membership – open membership, but members must meet some criteria; equal treatment or adherence to the one-member-one-vote principle is seen only by 20% of the respondents as one of the critical success factors for a co-operative.
Bickle and Wilkins (2000)	Quantitative data from evaluation of the co-operative management "Values, principles and future" program, United Kingdom.	Only 10% of managers identified <i>democracy, equality, equity and solidarity</i> as the most important co-operative value, while 30% were most influenced by the value of <i>self-help</i> .
Adrian and Green (2001)	Survey of 41 managers of agricultural co-operatives in Alabama.	Strong adherence to co-operative principles was noted: 73% of managers felt the one-member-one-vote rule was very/extremely important to the success of the co-operative, 87.5% were in favour of open membership
Kyriakopoulos et al. (2004)	Survey of 52 managers in Dutch co-operatives.	Only 30% used the one-member-one-vote principle.
Dunn et al., (2002)	Focus groups with 6 panels of representatives of universities, various farming co-operatives, co-operative councils.	General statement that the core co-operative principles are still valid, but the principle of user-control is most critical to operating on a co-operative basis.

As shown in Table 1, most of the published research on meaning and relevance of co-operative principles has used primarily a quantitative methodology and large-scale surveys to examine some aspects of the relevance of the co-operative principles. Little qualitative research has been done to provide insights into what co-operative principles mean in practice and how co-

operatives adhere to these principles. We believe that there is a gap in the in-depth understanding of how co-operatives interpret the principles and what characteristics of co-operatives facilitate a greater synergy with the principles of co-operative identity. The empirical research on the ICA principles also tend to be confined to agricultural co-operatives, thus a focus on diversity across the co-operative is missing. Apparently there has been very little recent empirical research undertaken regarding the ICA identity statement and principles. The need for more of that empirical research to be done is further supported by claims by scholars like Barton (1989) that the three most important factors for success of a co-operative are: (a) validity of principles, (b) understanding of and adherence to these, and (c) effective management. Most of the empirical studies regarding validity of the co-operative principles and understanding of and adherence to these were done in the 1990s and the early 2000s. What is needed is to re-address the relevance that the co-operative principles of the ICA (1995) have within a modern co-operative sector operating in the second decade of the twenty-first century. This has been further impelled by a renewed global interest in the co-operative movement, facilitated by the United Nations proclamation that 2012 was the International Year of Co-operatives.

3. Research setting and method

The complexity of the understanding and meanings attached to a particular co-operative can best be elicited by in-depth exploratory research. In order to contribute towards further understanding of the meaning of principles for co-operatives' members we conducted 18 in-depth interviews with members of co-operatives. The interviewees are currently associated with co-operatives in some Board or managerial capacity, while two participants offer consulting services to co-operatives. Five participants are either current or recent past office bearers of the Co-operative Federation of NSW, Australia. The interviewees were recruited from a diversity of co-operatives: consumer (5), producer (4), housing/land (3), financial (1), and community services (1). The membership size of these co-operatives also varied: 0-100 members (3); 101-500 members (4); and over 500 members (7). There is also some variation in the location of the co-operative's membership base: national (3); regional (6); and local town (5). The positions held by the research participants in the co-operatives included: General Manager/Chief Executive Officer (8); Board Director (5); Board Chair (4); Board Secretary (1).

Initially some key (current and past) office bearers of the Co-operative Federation of NSW, Australia, (the peak industry body) were interviewed for the project. Their views were then sought to identify potential interviewees in the co-operative sector. Attempts were made to identify a cross section of potential participants in terms of length of operation of the co-operative, type, location, size and the experience of the research participant within the co-operative. Employing a snowballing sampling technique, details of additional potential participants were sought from subsequent interviews. By focusing on diversity of the participants we were hoping to gather multiple perspectives and increase comprehensiveness of the findings (Schwandt, 1994).

When engaging with research participants, a list of the seven co-operative principles was initially provided and served as a starting point for a semi-structured interview protocol. Attempts were made to capture the meanings attached to the principles, how each had been applied to the practice, and issues or problems related to that. In addition, information about whether the principles should be modified or expanded was gathered. The interviews also addressed the issues of what factors determine a co-operative's degree of adherence to the principles and what are the main benefits/costs which accrue to a co-operative from following the principles. Finally, the research looked at how co-operative principles were incorporated into the current management practice of co-operatives. Wherever possible and necessary, follow-up questions to answers, attempting to unpack the meaning of responses, were employed. Obviously, this is a small scale qualitative study carried out within the Australian co-operative sector and therefore context dependent. Generalizability of the findings from this empirical context to another one may be problematic. However, by clearly stating central ideas – a set of the ICA principles- and outlining the details of the sample included it may actually be possible to replicate the study in another context (Creswell, 1994).

Interviews typically went for one hour and were conducted using a semi-structured interview protocol. All interviews were digitally audio-recorded and transcribed. The data sets were analysed using NVivo. The transcriptions were imported into NVivo with coding initially based on the themes identified in the interview protocol. Four of the transcripts were coded by one of the researchers, providing a coding template for the research assistant who continued with the coding. A number of additional themes, such as passion for the co-operative form,

were identified through the coding process. Significant discussion about these themes and their definitions resulted in a robust set of codes which were used to code all transcripts. The final coding was then reviewed by one of the researchers to ensure consistency of coding across all transcripts (Bazeley, 2007).

4. Co-operative principles in practice: Empirical insights from the Australian cooperative sector

4.1 The seven ICA principles

The structure for presenting the empirical findings is based on a modified version of Wilkins's Co-operatives Triangle model (Bickle and Wilkins, 2000). The decision was made to preset the data following the two elements of that model: (a) how participants interpret co-operative principles, and (b) what are the enabling and blocking factors which affect ability to apply co-operative principles. Then (c) validity of principles was added as a third point. Such an approach is also aligned with Barton's (1989) statement that there are three factors which are important to the success of co-operatives: (a) validity of principles, (b) understanding of and adherence to these, and (c) effective management.

In general, participants considered the first principle to be fundamental for co-operatives. The notion of restricting membership appears to be an issue for co-operatives which are specific to an industry (Table A1), like agricultural or housing co-operatives. Membership is accepted based on some type of active membership rule, and typically this is an upfront fee and/or ongoing purchase of goods/services. It supports the results of the quantitative study by Gray and Kraenzle (1998) on agricultural co-operatives in U.S. which indicated a high level of agreement with most co-operative principles except open membership. However, the notion of restricting membership to specific individual co-operatives appears not to be a general concern and is consistent with the intent of the first principle. For example, one participant suggested: *"... open membership was always that we need a common bondbecause it's a female Lutheran architect co-operative, that's fine, I'm not upset that I can't join, because that is the purpose that they were formed for"*. It appears that voluntary membership is self-evident in the Australian context. The term 'voluntary' in the first principle was only explicitly addressed by one consumer co-operative research participant who compared involuntary membership to

coercion, being the antithesis to co-operation: “*you can’t really have a co-operative where you coerce people into doing it, they’re not co-operating*” (consumer co-op).

The majority of research participants viewed the second principle as a core principle and fundamental to the existence of a co-operative. One participant labelled it as the distinguishing organisational attribute: “*that’s what distinguishes a co-op from a company, one member, one vote, it doesn’t matter [how many shares you have]*” (consumer co-op). However, a number of participants from a cross-section of the co-operatives included in this research indicated a high degree of member voting dis-engagement (Table A1).

Two research participants from housing co-operatives made an interesting distinction between democracy and consensus in decision making and argued that the latter is practiced within their co-operatives: “*I mean we’re all equal. There isn’t a President and we don’t vote. It isn’t a numbers game, decisions are made by consensus in our meetings*” (housing co-op); also: “*all the co-ops I have belonged to have chosen consensus over democracy*” (housing co-op). Both these examples relate to participants associated with co-operatives with very small membership.

The majority of participants described an “active membership test” in outlining a co-operative’s adherence to the third principle of member economic participation. The notion of economic participation varied across co-operatives and included: the supply of a minimum level of agricultural produce; the initial joining fee only; a requirement to spend a minimum amount annually at the co-op; performing some voluntary work at the co-op; and undertaking some community service. The importance of the principle was self-evident among participants.

The two consultant participants expressed some reservations about the principle: one questioned the emphasis on the term “economic”: “*many co-ops don’t have an economic element to them, but certainly member participation is a key thing*” (consultant). The other consultant participant bemoaned the all-encompassing nature of the principle’s wording: “*you could do lots of things possibly, so by trying to be too general, to service all the variations of co-operatives, I don’t think it works*” (consultant).

A number of research participants described the nature of their capital-raising when addressing autonomy and independence (fourth principle). Many outlined their dependence only on membership funds and possibly a small bank overdraft or loan when needed, and the issue of independence does not typically arise in these circumstances, for example: *“because our bank arrangement is a commercial arrangement and whilst they have governance and things like that that they require the business to adhere to, they don’t interfere with our business on a day-to-day basis”* (producer co-op). However, some participants saw loss of independence when accessing *significant* levels of external finance and related that to the “stage of the cycle” of a co-operative. Some participants commented upon the possible loss of independence due to their (non-financial) relationship with other domineering organisations. While this principle is considered to be core and fundamental, some questioned its applicability and hence relevance: *“I don’t think the principle applies in today’s world”* (consumer co-op); and: *“it’s hard to, hard to absolutely ensure independence”* (producer co-op).

The majority of research participants indicated that training and education within co-operatives occurs at various levels: directors, management, employees, suppliers and customers. An observation made by one participant is the need for the directors to be involved with the co-operative culture for it to promulgate throughout the organisation through training: *“the directors are really in charge of the culture of how we operate, and certainly that is then passed on through the staff and then through to the [members] as a whole”* (producer co-op). The type of education and training employed varies from informal to formal seminars, information sessions, newsletters, magazines, on-line, etc. Most participants indicated that education and training covers both specific job skills training/education but also education about co-operatives. The majority of participants viewed the fifth principle to be very important; however, interestingly one participant offered a less enthusiastic view of the educational efforts about the meaning and nature of co-operation, which in this case was linked to the disappointment of not adhering to co-operative principles in general: *“because most of the co-ops don’t abide by the principles, so they don’t see the need to educate their members or anyone else”*.

Research participants indicated that the sixth principle (Co-operation among Co-operatives) is rarely followed; those who did mention co-operation outlined activities such as mentoring and information sharing, or, interestingly, as suggested by one producer co-operative participant, a merging of previous separate co-operatives, as examples of the principle in operation. Various

reasons were articulated for the lack of engagement with the principle, such as a lack of a critical mass of co-operatives, the geographic isolation of some co-operatives, and “economic” factors as the drivers for doing business with other organisations rather than a need to deal with other co-operatives. The majority of research participants did not think co-operation among co-operatives is very important and thought that it is probably the least valued of all principles: “*this is probably the least relevant*” (producer co-op); and: “[*it is probably one that is underworked or undervalued by everyone*” (consumer co-op). Despite the lack of engagement with the principle, some participants indicated that it still provides a useful aspirational indication.

The majority of participants understood concern for the community (seventh principle) to extend to activities which impact beyond its membership base. The types of activities undertaken to demonstrate concern for the community include sponsorship of local organisations (sporting, welfare, schools, and community groups), the purchase and re-sale of local foods, high-school awards/scholarships, supply of free food to schools, and lobbying against local unwanted development. Interestingly a number of participants viewed their community sponsorship more as marketing/advertising spending rather than as an expression of concern for the community, for example: “*saw it as a marketing tool, being close to that buying community in that area*” (producer co-op), “*sponsorships, you don’t have to be concerned for the community just do sponsorship, because you can just write a cheque*” (producer co-op).

In general, strong support was expressed for the importance of this principle by research participants, and some participants highlighted the inescapable link between the co-operative and the community, for example: “*we are 110 per cent [behind the principle] because that’s the reason we’re there*” (consumer co-op). However, it was also suggested that “business” co-ops place much less importance on the community, and for a large business co-op “*the seventh principle is more of a philosophical one*” (producer).

4.2 New co-operative principles

In general, research participants did not particularly engage with prompting about the need for new principles or modifying existing principles: one participant suggested: “*I perhaps think*

there should be less” (producer co-op); and another: *“it’s certainly never been on our mind that there is something that is not here that should be here”* (producer co-op). However, two participants did suggest additional principles: (a) *“provisionality, which means that if we make a decision today, it’s for today, and we don’t have to stick to it forever. When circumstances change, then we can revisit and make a different choice”*; (b) *“participation, that decisions are made at the lowest possible part of the organisation. And in the case of our co-op, that means that we try to ensure that, for example, our volunteers who are serving in the shop, are properly trained and have access to the information that they need to make the sort of decisions that we would expect that they might be called upon to make, when they are working in the shop”* (consumer co-op); and about being (c) *“commercial approach, they must be commercially driven organisations, there’d be one about ‘the businesses must run on a commercial basis to meet their stakeholder’s expectations’”* (producer co-op).

Research participants were prompted about the notion of environmental sustainability and whether it should be added as an additional principle, but many thought the concept fitted with the “concern for the community” principle: *“I think it fits in perfectly well with number seven to be quite honest”* (consultant), *“[it] is just another word for saying ‘community’”* (consumer co-op), and *“if co-operatives worked for sustainable development of their community through policies I don’t think you really need another whole principle”* (consumer co-op). One participant thought that the exclusion of environmental sustainability from the principles was sufficiently covered by legislative arrangements: *“I think any principle like that has been overcome by legislation”* (producer co-op). Two participants offered a contrary view and suggested environmental sustainability should somehow be included: *“there’s nothing really in those principles that sort of talk about the environment and sustainability and you know, those sort of core things”* (financial co-op), and *“it’s not just about the money and economic participation, it should have environmental accountabilities and social accountabilities in there as well”* (consumer co-op).

4.3 The causes and consequences of following the principles

A number of participants emphasised the important role of the Directors of the Board in setting an appropriate culture to enhance the uptake of the principles: *“the directors are really in*

charge of the culture of how we operate, and certainly that is then passed through to the staff and through to the [members] as a whole” (producer co-op), “the role of a Board of a co-operative is to ensure primarily that the principles are followed, embraced, nurtured and loved” (consumer co-op). Participants also emphasised the important role that strategic planning plays in installing an appropriate culture which facilitates the uptake of the principles. The importance of education and training in promulgating this culture throughout the co-operative was also singled out. The co-operatives in rural/regional areas were more likely than their urban counterparts to adhere to the principles, because of their closer tie to their communities. Finally, passion for the co-operatives came up very strongly in the interviews and was identified as a factor which may both influence the application of the principles and be influenced by following the principles.

In a discussion about the commitment and the passion for the co-operative form as a key part of the co-operative difference, the comment was made that *“you actually have to every day ... engage in those co-operative principles of leadership and advocacy and wanting to educate people, so that they can actually set that apart from what their peers are getting in another organisation that’s not a co-operative. And that’s what they see, and that’s what makes others jealous, and that’s why our list is so long. It’s not just about milk prices, it’s about what we do” (producer co-op).*

A whole series of disparate issues were raised by research participants when discussing the consequences of following the co-operative principles. A number of positive consequences were articulated, such as economies of scale, achievement of non-monetary goals, sustainability, and positive “human” impact on members. A number of negative consequences of following the principles were also outlined by the participants, such as surplus retention, falling behind contemporary best practice, slow decision making, problems in appointing directors, and limited ability to raise capital (Table 3). Finally, some research participants provided insights into the consequences of *not* following the co-operative principles: self-evidently one consequence is deregistration as a co-operative. Interestingly, various expressions were used to describe this consequence of not adhering to the principles: *“failure, demutualisation, squabbles, fights, legal cases, deregistration” (consumer co-op); “I have a feeling that a lot of the co-operatives that are disbanding for one reason or another, are the ones that haven’t been following quite a few of the principles” (consumer co-op); “By not*

following the principles, you actually end up on the road of demutualisation, and unlocking value, rather than actually bring[ing] more value for communities in the future” (consumer co-op).

5. Discussion and Conclusion

The findings of this research appear to confirm that the importance and practice of the ICA principles varies between co-operatives and may depend upon the nature and type of the co-operative. Similarly to Birchall (2005), application of the principles appears to vary between the various co-operative sectors, with most adherence in producer co-operatives. In general, the principles tend to be more important and more often practiced in smaller local regional/community-based co-operatives rather than in larger national-based business-focused co-operatives. However, despite this general re-confirmation of previous research, this qualitative research has uncovered some interesting features about the lack of engagement with and perceived relevance of some of the principles.

Consistent with some previous research (Birchall, 2005; Zeuli, 2004; Dunn et al., 2002; Dunn, 1986), the first three principles appear to have universal support, while the support for the other principles varies somewhat between research participants. The variation in support for particular principles is interesting, with some citing “education” or the “community” as the most important, rather than one of the first three “core” principles. It is clear that “co-operation among co-operatives” was considered the least important, with practice typically restricted only to information sharing between co-operatives. The lack of co-operation among co-operatives appears to be due in part to a lack of critical mass within Australia.

According to Birchall (2005) the current set of principles should be reviewed to ensure co-operatives stay relevant, and he called for the addition of environmental sustainability, recognising the contribution of employees’ participation and principles of compliance, with sanctions for non-adherence. Hardesty (1992) argued that the traditional co-operative principles should be relaxed to allow for more financing options, accumulation of unallocated equity, enhanced strategic planning and increased investment. Our empirical findings indicated a variety of responses to this topic, ranging from statements that the number of co-operative principles should be decreased, to calls for additional principles such as consideration of

provisionality (revisiting the application of principles when circumstances change), participation and inclusion of a commercial focus in operating co-operatives. Furthermore, there appears to be wide variation in opinions about concern for the community. Some local town co-operatives view themselves as being intertwined and part of the local community; in contrast some large business-focused co-operatives view community sponsorship as “marketing” spending, and yet others view only their members as being their community.

The restricted membership practice of some co-operatives, due to the desire to protect current members’ interests, is a noteworthy observation. This practice appears to be of concern for the co-operatives involved and is at variance with universal support for “open membership”. The lack of engagement of members with some co-operatives clearly illustrates their desire not to exert any democratic control. An inability of some co-operatives to get quorums at meetings and sufficient voting numbers reflects the apathy of many members. It is suggested that in some situations an active education or marketing campaign for members would not necessarily improve engagement and would be viewed as a waste of resources. Interestingly, even though the use of significant external finance is typically seen to impact on the autonomy and independence of a co-operative, this research identified the importance of the impact of other (non-financial related) suppliers/purchasers on the operations of co-operatives. The high degree of market concentration, in the markets into which some co-operatives trade, appears to have an important impact on the ability of some co-operatives to make decisions independent of other organisations.

One of the main drivers of a co-operative’s adherence to the principles appears to be the passion and motivation of the Board. Some even suggested that the passion for the co-operative form is the difference between co-operatives and the corporate form. This suggestion, from the Australian context, is an additional difference to those originally suggested by Hoyt (1996), Novkovic (2006; 2008) and Bernardi (2007). In exploring strengths and weaknesses of the co-operative form, Røkholt (1999) referred to members’ passion and loyalty as being crucial to survival and also the source of competitive edge. That relationship between the passion for the co-operative form and the application of the principles may have an impact on the success of co-operatives, and is worthy of further exploration.

The importance of directors and their understanding and application of the co-operative principles was highlighted by Dunn et al. (2002). A Board needs to instil a culture throughout the organisation recognising the importance of and the benefits which flow from being a co-operative and following the principles. This recognition interfaces with the “education, training and information” principle, through the need to educate management, employees and members about the benefits of the “co-operative way”. Our findings also indicate the need for education of the members of the Board, not only in terms of developing financial, management and marketing skills, but also further understanding of co-operative principles and the specifics of the co-operative sector. Empirical research (Barros and Santos, 2003) confirms strong correlations between the level of education of co-operative managers and the efficiency of co-operatives. However, the role of the Board in the setting up of strategic directions is still perceived as being rather problematic as there is a strong focus on operational issues, and problems may be further intensified by the need for hired management. As Kaswan (2012) notes, two main problems involved in employing outside management for the running of a co-operative are that: it brings in people who may have different interests, focus and concerns from those of the membership, and it loosens the members' sense of responsibility for the co-op.

The emergence of multiple, conflicting objectives between management and the members (the principal-agent problem) can erode trust and identity. As a result, members become less involved in the co-operative, cultural clashes emerge between management and members, management takes control, members become increasingly dissatisfied, and the Board and management lose legitimacy in the eyes of members (Nilsson, Kihlen and Norell, 2009). Therefore, as it has been reinforced by the qualitative evidence from the Australian co-operative sector, the commitment of management to co-operative values is the key to the ongoing success of a co-op.

As members of co-operatives attach strong importance to the principle of democratic organisational control, co-operatives should spend some resources to set up what Österberg and Nilsson (2009, p. 194) refer to as “well-functioning member democracy”. This may be achieved by establishing proper informational channels, or even by promoting the idea of more co-operative members becoming Board members. For instance, Norwegian consumer co-operatives have set up a target where “one percent of our members are to be trained as qualified,

competent board members” (Siversten, 1996, p.35). It is to be expected that, as Gray and Kraenzle (1998) found in a study of agricultural co-operatives in the USA, co-operative-minded members would be more likely to be elected to the Board of Directors, while those with a more individualistic orientation would be less likely to take these roles.

Interestingly, a series of both economic and social benefits are thought to accrue from following the principles. As expected, the smaller community-based co-operatives emphasize the social/community benefits and the larger business-based co-operatives the economic benefits. However, the identified negative consequences from following the principles tended to be only economic-related restrictions and were limited to the non-community-focused co-operatives.

In conclusion, this research confirms the varying degree of uptake of the principles among Australian co-operatives. Even for those co-operatives who admit that they do not strictly follow all of the principles, the principles act as important aspirational aims of “human value” and serve as useful guideposts for achieving desired social objectives through economic activities, as suggested by the *Rochdale Society of Equitable Pioneers*.

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Table A1 The Meaning, Importance and Practice of the Co-operative Principles: Insights from the Australian Cooperative Sector

ICA principle	Interpretation/Understanding	Importance/Validity	Practice
<p>Principle One: Voluntary and Open Membership</p>	<p>Depends on the nature of co-operative; Membership is open only to those individuals with specific characteristics; for example, to be a member of the agricultural supply co-operative you need to be an agricultural producer, <i>'they must deliver fruit'</i> (producer co-op).</p>	<p>Considered to be fundamental for co-operatives, for example, <i>'it's very important. It's basically the core of the co-op. You know, ... that's sort of the base value'</i> (financial co-op).</p>	<p>Restrictive' membership practices and some practiced exceptions to the general principle of open membership; Expressed concerns about their lack of openness <i>'open membership is sort of a difficult one for us, when it is based on a industry'</i> (producer co-op) However, another participant implored that <i>'if they can't fulfil active membership provisions they can't become a member, so it's not really open membership, you know'</i>. Some co-operatives have waiting lists for membership and would not necessarily take on new members as that would negatively impact on the 'business' of the co-operative, <i>'it's only if we need your business, so someone can't just knock on the door and say I'm in this area and I'd like to supply you'</i> (producer co-op). Or, a housing co-operative which does not have open membership due to local council regulations, <i>'we can't be open because we're limited in how many houses we can have'</i></p>
<p>Principle Two: Democratic Member Control</p>	<p>All research participants indicated that members have the right to have only one vote at meetings and that this is independent of any difference in shareholding which may exist fundamental to the existence of a co-operative. One participant even labels it as the distinguishing organisational attribute</p>	<p>The importance of the principle is reflected by comments such as: <i>'if you don't have that, you don't really have a co-operative'</i> (community service co-op), <i>'it's got to happen'</i> (consumer co-op), and <i>'it's about the democracy, and clearly that is a very important part of the constitution of a co-operative in that way'</i> (consumer co-op).</p>	<p>Regarding democratic member control or one-member one- vote rule all research participants indicated that members have the right to have only one vote at meetings and that this is independent of any difference in shareholding which may exist. Typically however, this voting right is used to vote for Board Directors who then appoint/oversee management staff to run the co-operative on a day-to-day basis, <i>'[members are] given the right to vote for a person who is nominated as a Director, but then they don't have actual input on a daily basis'</i> (consumer co-op). The problem of a high degree of member voting dis-engagement, <i>'not everyone votes' 'have enough trouble getting members in the AGM to get a quorum'</i> On the other hand, some participants indicate a strong encouragement to involve member participation and influence, <i>'the Board is there to carry out the wishes of the members, and we mean to do that to the best of our ability'</i> (consumer co-op), and <i>'we encourage our [members] to participate in setting policies and decision making'</i> (producer co-op).</p>

<p>Principle Three: Member Economic Participation</p>	<p>‘Active membership test’</p>	<p>The importance of the principle is self-evident among participants, , ‘<i>this is so important, I mean the whole reason for having a co-operative is for that activity</i>’ (consultant), and ‘<i>those rules are actually built in the principles of the co-operative</i>’ (consumer co-op).</p>	<p>The differences between member contributions The imbalance of shares due to membership duration ‘<i>the share contribution scheme is to lift those shareholders up who are relatively new shareholdersto [contribute] more to the capital of the company to get some equilibrium</i>’ (producer co-op); Some members may face hardship issues in making a contribution, ‘<i>we require everybody to pay the same amount, unless they’re in trouble</i>’ (housing co-op).</p>
<p>Principle Four: Autonomy and Independence</p>	<p>Refers to the nature of capital raising Many outlined their dependence only on membership funds and possibly a small bank overdraft or loan when needed, ‘<i>we haven’t really ever had to go beyond membership other than normal outside borrowing on an overdraft</i>’ (producer co-op), and ‘<i>the finance .. is mostly from membership fees and retained earnings</i>’ (consumer co-op).</p>	<p>Polarisations of the views: Some consider it to be core and fundamental, ‘<i>without that independence, without members being the sole controllers of the co-op it is not really a co-op at all</i>’ (consumer co-op), and ‘<i>it is a fundamental principle</i>’ (consultant). However, in contrast other participants questioned its applicability and hence relevance, ‘<i>I don’t think the principle applies in today’s world</i>’ (consumer co-op), and ‘<i>it’s hard to, hard to absolutely ensure independence</i>’ (producer co-op).</p>	<p>A loss independence when accessing <i>significant</i> levels of external finance and relate that to the ‘stage of the cycle’ of a producer co-operative, ‘<i>in the early years, the members are the people who form the co-operative, [in] that situation their desire to maintain 100% control is very strong,... there’s been a few morphs of the organisation over time [and external finance is gained and] they literally have to put those requirements of the finance providers higher than the requirements of members... so they have to sacrifice some of that autonomy</i>’ (producer co-op). Some participants commented upon the possible loss of independence due to their (non-financial) relationship with other domineering organisations, ‘<i>this [co-operative] is less autonomous because of its connection with the organisation</i>’ (housing co-op). Also, in supplier relationships, ‘<i>sometimes the multinationals tried to sort of tell you how to do everything, so it’s very hard to battle that independence with those multinationals</i>’ (consumer co-op).</p>
<p>Principle Five: Education, Training and Information</p>	<p>Education and training covers both specific job skills training/education but also education about co-operatives, for example, ‘<i>what co-operative means and what membership actually means</i>’ (consumer co-op), ‘<i>why have a co-operative</i>’ (consumer co-op), and ‘<i>to increase the level of awareness of [the business] as a co-operative in our local communities</i>’</p>	<p>The majority of participants view the principle to be very important: ‘<i>the most important principle of the lot, ... education is the most important, otherwise people forget why we have a co-op in the first place</i>’ (consumer co-op). Another participant offered the view that training members about co-operatives is a waste of time ‘<i>most people don’t understand how it [co-operative] works, they don’t really</i></p>	<p>The majority of research participants indicated that training and education within co-operatives occurs at various levels: directors, management, employees, suppliers and customers. For example, ‘<i>very strong education and training programs in place for staff</i>’ (consumer co-op), ‘<i>dedicated to providing education and training whether they are members or not</i>’ (consumer co-op), and ‘<i>within the Board itself, there is a strong desire to undertake education and training</i>’ (producer co-op).</p>

Principle Six: Co-operation among Co-operatives

Suggested that the merging of previous separate co-operatives is an example of the principle in operation, *'[Business] bought some businesses, but the majority of it actually come from co-operatives merging, and then it probably goes to your sixth principle'* (producer co-op).

care, ... all that they want is to get the goods they need at the time they want them at the price they want' (consumer co-op).

Rarely followed; mainly referred to mentoring and information sharing, for example, *'if I need help or guidance in some area, about the co-op or whatever I've have no hesitation in ringing them up'* (community service co-op), *'there is still a movement out there amongst co-operatives to sort of look at each other for information'* (consumer co-op).

Various reasons are articulated for the lack of engagement with the principle. Some participants cite a lack of a critical mass of co-operatives, *'we don't have enough co-operatives to enable that sort of thing to happen'* (consultant), *'all the major suppliers aren't co-operatives'* (producer co-op), The geographic isolation of some co-operatives inhibits co-operation, *'because we live in a country area'* (community service co-op), and *'we don't have a lot of co-operatives in our region'* (producer co-op). Some participants cite 'economic' factors as the drivers for doing business with other organisations rather than the need to deal with other co-operatives, *"I don't think you'd make marketing deals with fellow co-operatives if it's based on sentiment"* (producer co-op).

Principle Seven: Concern for Community

Some participants refer to activities in the local/regional community mainly by sponsoring local events. Sporadically, the community is seen as relating only to the co-operative's membership base.

In general, strong support was expressed for the importance of this principle *'I really think that a co-op has got to interact with the community'* (consumer co-op). Some participants highlight the inescapable link between the co-operative and the community, *'I think when you say concern for community, the community has concern for the co-op, as well, ... our community sees it's co-operative as a trusted friend of the community'* (producer co-op), and *'a co-operative comes together to answer a need from its community'* (consultant). In contrast, some participants suggest that 'business' co-ops place much less importance on the community engagement.

Some participants refer to activities in the local/regional community *'we are determined we can do our bit, for the [local] community in particular by providing particularly local food'* (consumer co-op), *'we do our sponsorship of just about every local organisation there is'* (consumer co-op). The types of activities undertaken to demonstrate concern for the community include sponsorship of local organisations (sporting, welfare, schools, and community groups), the purchase and re-sale of local foods, high-school and TAFE awards/scholarships, supply of free food to schools, and lobbying against local unwanted development. Interestingly a number of participants view their community sponsorship more as a marketing/advertising spend rather than an expression of a concern for the community. For example, *'saw it as a marketing tool, being close to that buying community in that area'* (producer co-op), *'sponsorships, you don't have to be concerned for the community just do sponsorship, because you can just write a cheque'* (producer co-op), and even *'we've done sponsorships ... I don't know if you class that as advertising or sponsorship'* (housing co-op).

Table A2 The Motivation and Consequences of Following the Principles

Motivation	Consequences	
	Positive	Negative
<p>1. The important role of the <u>Directors of the Board</u> in setting an appropriate culture to enhance the uptake of the principles. “<i>The Board and the management down, the leaders of the co-operative, they’re the ones that apply the principles and do it, and see that they are enacted upon</i>’ (community service co-op), ‘and ‘<i>it depends upon the passion of the Directors and the Board of the day</i>’ (producer co-op).</p> <p>2. The important role of <u>strategic planning</u>. - ‘<i>principles have got to be really addressed in their yearly strategic planning ...they’ve got to be almost part of their vision ... it’s got to be embedded in their structure</i>’ (consumer co-op).</p> <p>3. The importance of <u>education and training</u> in promulgating the co-operative principles, ‘<i>by offering that training, it’s encouraging them to get a better understanding about that cultural fit</i>’ (producer co-op), and ‘<i>which is again why I keep emphasising the importance of education, ..the older it [co-operative] gets, the bigger it gets, then the more attention needs to be paid to ensuring that we don’t forget why we formed a co-operative and what the benefits of a co-operative are</i>’ (community service co-op).</p> <p>4. <u>Location</u>: The co-operatives in rural/regional areas are more likely to adhere to the principles than their urban counterparts because of their closer tie to their communities... example, ‘<i>I do think it’s somewhat easier in rural communities because of the community itself, that perhaps the co-operative has been built upon ...I think if your Board of Directors are leaders in the community, then that makes it easier</i>’ (producer co-op).</p>	<p>1. <u>Economies of scale</u>, ‘<i>you get the advantage of all these people who are together, I mean it’s more efficient, you get economies of scale</i>’ (consultant), and ‘<i>if I look at the other businesses in this industry, they are constantly having to become larger, to ensure they can produce at a cost which allows them to stay in the market</i>’ (producer co-op).</p> <p>2. <u>Achievement of non-monetary goals</u>, ‘<i>clearly takes away the individual pursuit of power and profit, and actually gives that power to a community</i>’ (consumer co-op).</p> <p>3. <u>Sustainability</u>, ‘<i>it’s a sustainable form of business enterprise</i>’ (consumer co-op), and ‘<i>if we chose as an organisation to not be an educator and trainer I think the consequence of that is the business isn’t sustainable</i>’ (producer co-op).</p> <p>4 <u>Positive ‘human’ impact on members</u>, ‘<i>a willingness to listen to each other and to learn to communicate well</i>’ (housing co-op), ‘<i>it gets down to almost a way of life or a spirituality thing, it’s how people see themselves and how they see their community and how they might live their life</i>’ (financial co-op), and ‘<i>member benefit of cooperation is the effect it has on the individual concerned ... it is the best way to operate for the maximum growth, positive growth of human spirit</i>’ (housing co-op).</p>	<p>1. <u>Surplus retention</u>, ‘<i>a big negative about being a co-op and capital, is the fact that we return all our net profit to members every year</i>’ (producer co-op), however this was seen as a positive consequence by another participant ‘<i>the profits derived from the activities actually give you the opportunity to give your members a better payment than what a corporate entity would</i>’ (producer co-op).</p> <p>2. <u>Not best practice</u>, ‘<i>I’ve also seen co-operatives really fall behind contemporary best practice, I guess that might be for a number reasons, sometimes it’s small, they just don’t have the resources, ...[or] if they become too member-driven</i>’ (consumer co-op).</p> <p>3. <u>Slow decision making</u>, ‘<i>the fact that some things have to be decided by our members, then yes, we could be seen to be slower than what a corporation might be in making decisions</i>’ (producer co-op), and ‘<i>so sometimes they can be slower in making decisions because they are involving the stakeholders more</i>’ (financial co-op).</p> <p>4. <u>Director recruitment difficulties</u>, ‘<i>having the membership only determined by [members] is a limiting factor [in appointing directors] ..</i></p> <p>5. <u>Limited ability to raise capital</u> ‘<i>so that’s really the biggest disadvantage if they want to</i></p>

5. Passion for the co-operatives came up very strongly in the interviews and was identified as a factor which may both influence the application of the principles.

get capital to actually expand and grow'
(financial co-op).
