

## Five critical things every co-operative leader should know

Wayne Schatz, Masters of Co-operatives and Credit Unions, Saint Mary's University

**Abstract:** This paper explores five critically important learnings to help guide co-operative staff, managers and leaders (particularly those new to co-operatives) in their day-to-day operational and strategic planning and decision-making. Co-operatives, as values- and principles-based business enterprises, are naturally suited to be key contributors of enterprise-based solutions to significant social, environmental and economic problems the world is facing, as well as catalysts for a shift in thinking that recognizes that business and the economy operate within the finite boundaries of the planet and exist to serve human needs, not the other way around. For co-operatives to be in the best position to be agents of change, they must nurture and preserve their co-operative identity, recognize and take steps to mitigate the risks of isomorphism and demutualization and, in so doing, exercise courageous leadership. These learnings are explored under the following headings: (1) Co-operatives: Why should I care? (2) Question your assumptions. Business operates within the finite boundaries of our planet. (3) Co-operative identity: What is it and why is it important? (4) Be aware of the invisible, yet powerful forces shaping your co-operative; and (5) The importance of leadership, followership and courage.

Wayne Schatz is a graduate of the Masters of Co-operatives and Credit Unions program at Saint Mary's University and Vice President and General Counsel (Operations and Distribution) at The Co-operators.

**Keywords:** co-operative identity; global sustainability; corporate responsibility; isomorphism; demutualization; co-operative leadership

### Introduction

#### *Intention and perspective*

This paper discusses five critical learnings for co-operative leaders to understand and apply as they carry on with their day-to-day work and make plans and decisions, both operational and strategic. The paper is intended to "pay forward" the author's opportunity to take the Masters of Management, Co-operatives and Credit Unions (MMCCU) program through Saint Mary's University in Halifax, Nova Scotia by sharing the inspiring lessons with employees, managers and leaders (staff at all levels who have the opportunity to exercise influence and thought leadership within the organization) in his own co-operative, The Co-operators Group Limited (The Co-operators), and others. The paper's frame of reference is visualizing an interaction with a newly-hired colleague who has no background in co-operatives and asks "*What do I really need to know about co-operatives to start off on the right foot and help make a positive impact in this organization?*"

The Co-operators is a large insurance and financial services co-operative headquartered in Guelph, Ontario, Canada. Unlike many co-operatives, most of The Co-operators clients and insurance policyholders are not members of The Co-operators, or any other co-operative, but are members of the general public, so much of the organization's time, attention and resources are client-focussed, not member-focussed. As a group of companies that operates in a highly regulated environment and competes almost exclusively with non-co-operatives, many employees' daily work does not directly pertain to co-operative issues or concerns. That is, a cooperative-specific focus is not a primary consideration.

#### *Co-operatives then and now*

Co-operatives have a rich and diverse history, originating in the United Kingdom and Western Europe during the Industrial Revolution as a collective response to the stark and distressing economic and social needs of ordinary people and the communities where they lived. Given the social and economic dislocation of the day, the only real hope for labourers, farmers and their families to improve their lives and well-being was to come together and help each other and, in so doing, help themselves.

Correspondence address: Wayne Schatz, Vice President and General Counsel (Operations and Distribution) at The Co-operators, Guelph, Canada. [wayne\\_schatz@cooperators.ca](mailto:wayne_schatz@cooperators.ca)

Today, co-operatives of all sizes and in multiple industry sectors are significant players in the national and global economies. Worldwide, co-operatives are estimated to directly employ at least 250 million people (Roelants et al., 2016, pp. 9, 28) and the Top 300 co-operatives have global revenues in excess of \$2.5 trillion USD (World Co-operative Monitor, 2016, p. 7). In Canada alone, there are over 9,000 co-operatives and mutual organizations operating across virtually all industry sectors, with over 18 million members, assets in excess of \$442 billion, annual revenues of nearly \$40 billion, and over 130 thousand employees (Co-operatives and Mutuals Canada, n.d.; Canadian Credit Union Association, 2016; Government of Canada, 2012).

Particularly in North America and Western Europe, many co-operatives have grown to be very large and commercially successful organizations. Often, their original historical purposes (to meet stark, unmet needs of individuals and communities) have been fulfilled. The notion of “mutuality” (that is, bringing individuals and communities together to provide for themselves), critical in the formative stages, is no longer the driving force it once was.

Proponents of co-operatives today (a.k.a. “co-operators”) champion a business model that endeavours to create greater and more broadly-based value, offering a more enduring and sustainable form of enterprise than do the predominant investor-owned business models. Democratically owned and controlled, values- and principles-based, and integrating financial, social and environmental goals and outcomes in measures of success, the co-operative business model offers a better way of doing business.

### *Loss of co-operative identity*

Despite the optimism of the previous section, all may not be rosy on the co-operative path ahead. The most critical issue facing co-operatives in Canada and around the world is the potential loss of their co-operative identity and, therefore, their existence as co-operatives. The risk to co-operative identity can be attributed to the need for co-operatives to compete in a global economic environment that is predominantly investor-focussed. As a result, they may become more and more like their investor-focussed competitors and less and less like co-operatives. A leading cause of co-operative identity loss is **business decisions made by co-operative leaders as if they were operating in a traditional investor-owned, profit-focussed business whose sole and ultimate purpose is to generate and increase shareholder value.**

The question for co-operative leaders, members and employees is: what do they consider worth nurturing and sharing: (1) increasing financial returns and shareholder value? OR (2) optimizing financial, social and environmental returns in balance with each other?

It will be helpful to delve further into the reasons why anyone should care about co-operatives in today’s world dominated by investor-owned, profit-focussed business enterprises.

### **Critical Learning No. 1: “Co-operatives: Why should I care?”**

Co-operatives are much better structured and positioned to make a long-term, net positive contribution to the world than investor-owned firms that focus on maximizing financial returns and shareholder value without considering adverse impacts on people and the planet. The history of co-operatives and the value they contribute globally suggest that the world is a better place today because of co-operatives and the individuals who work for them.

### *We are at an environmental, social and economic crossroads*

Since the dawn of the Industrial Revolution, in the quest for business success, social and environmental considerations have taken a back seat to financial and economic considerations. Today, the world is experiencing an exponential increase in climate change caused by human activity, the end of cheap energy (with dramatic negative impacts on societies), extensive depletion of shared natural resources essential to human welfare (such as fresh water, forests and fisheries), and a financial speculation bubble 50 times larger than the real economy of goods and services (Max-Neef, 2014, p. 16).

## Five critical things every co-operative leader should know

People, local, regional and national communities, and the planet deserve something better than the current situation and something much better than the current trajectory of investor-owned enterprises. One may argue that the world and the general situation of its people has never been better. Compared to even a century ago, life expectancies are longer, many diseases have been eradicated, technology and the Internet have made information broadly available, people are generally better educated, etc. However, on closer scrutiny these improvements are selective and have been accompanied by new and arguably greater perils: environmental, social, and economic.

### *Environmental Degradation, Pollution and Climate Change*

The undisputed dominance of the planet by the human species has led to humans, for the first time in our evolution, being able to change and fundamentally alter the course of life on the planet. There is ever-increasing environmental degradation caused by natural resource extraction and processing and pollution of the air, water and soil due to the exponential growth of the human population and the global economy over the last 200 years (Rees, 2014, p. 86). Ever-increasing CO<sub>2</sub> emissions have created the “greenhouse gas effect” contributing to global warming. While some may continue to argue about the cause, there are clear and undisputable signs that the planet is experiencing climate change and increasing frequency of extreme weather events resulting in damage, destruction, injury, death and displacement of people (Max-Neef, 2014). In Canada alone, there have been extreme weather and environmental events (that is, ice storms, fires and floods) to which The Co-operators, as a group of insurance companies, has responded directly.

Resistance remains among governments and the voting public in countries like Canada and the United States to taking meaningful steps to reduce the causes and mitigate the long-term effects of climate change when there are negative shorter-term economic impacts. Citizens (and therefore voters) may have legitimate concerns and fears about potential negative effects on their ability to maintain decent employment and earn a living. However, when their jobs are in industries that are significant contributors to greenhouse gas emissions, delaying meaningful action may provide economic comfort in the short-term, but will contribute to more difficult, costly and widespread economic, social and environmental problems in the long-term.

### *Poverty, Diminishing Social and Political Cohesion and the Threat of War*

Poverty is one of the greatest challenges our world faces today and one of the greatest threats to our future. As the rich become richer and the poor become poorer, social and political cohesion decline. The wider gap in income and standard of living between the world’s wealthiest and the world’s poorest leads to alienation, despair, anger and violence among those who feel left out, oppressed and voiceless. Poverty brings about further poverty and violence brings about further violence. Social agitation, crime, terrorism, rebellion and, eventually, if unchecked, revolution can ensue.

Among the various identified global threats to the national security of the United States are those related to human security, specifically threats arising from environmental risks and climate change (such as global warming and related extreme weather events, air pollution, tensions over shared water resources and declining global biodiversity) and threats to human health (such as the Zika virus, the rise of drug-resistant bacteria and viruses, as well as the overall impact of disease and rapid population growth, particularly in resource-constrained countries) (United States Intelligence Community, 2017, pp. 13-14).

One should also not underestimate the negative effects of war and the threat of war on people and societies around the world. Unfortunately, business and financial investment are embedded in military conflict and feed into each other. Global, for-profit companies manufacture and supply military equipment and weapons to all sides of an armed conflict. In turn, the shares of many of these companies are publicly traded and available as investments for both individuals and institutions, such as banks, insurance companies and employee pension plans. As more military product is manufactured and sold, corporate profits increase and so do returns for investors. This is a stark example of how profit-motivated business enterprise (and industry) can be fundamentally at odds with the concept of placing equal value upon people and the planet.

*It's just business, isn't it?*

**Does business have any responsibility for these problems?**

In his influential 1970 article in the New York Times entitled "The Social Responsibility of Business is to Increase its Profits", economist Milton Friedman argued that in a free society:

*there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*

Friedman's argument was that business executives who may choose to apply corporate resources towards social aims are doing so with other people's money – shareholders' or customers' – and essentially imposing taxes on one or both stakeholders. Taxation, in Friedman's view, should be part of a political decision-making process, in which long-established institutions make and administer such decisions and arbitrate any arising issues. These institutions are the legislative, executive and judicial branches of government (Friedman, 1970). Of course, others disagreed with this view. In a critique of Friedman's essay, Mulligan (1986) argued that Friedman failed to prove that exercising social responsibility in business would inherently lead to the objectionable results Friedman criticized and labelled as "socialism". Instead, Mulligan argued that socially responsible action can be a valid and integral component of strategic and operational business planning and management.

In reply to Mulligan's critique, Shaw (1988) noted that Friedman had for quite some time set the tone for the Corporate Social Responsibility debate, acknowledging the influence, rightly or wrongly, of Friedman's argument that it is the role of government, not business, to be concerned with social and environmental issues and action. Shaw further explained that:

*Friedman will not be dislodged until it can be shown that the social and political institutions of this nation, that is, the mechanisms for determining how power and control over economic resources are distributed, are inadequate to promote the common good and social justice (p. 538).*

While Shaw accepted that individual corporations are responsible for the wrong they individually cause, he did not acknowledge the collective contribution of business corporations to the "societal" problems he identified as inflation, unemployment, pollution, crime, housing, poverty and racism. With echoes of Friedman, Shaw stated that "no single corporation has caused these problems" (p. 540) and in so doing deflected and redirected attention from the cumulative contribution of corporate actions, arguing that "societal or system pervasive problems require a collective, democratic solution" (p. 540). Shaw suggested that where community need is considerable and demonstrable, corporations should respond to these needs in accordance with "rescue" principles with which corporate social policy should be aligned; namely, need, ability, proximity and last resort (pp. 540-541).

Corporations that follow these corporate social responsibility rescue principles seem to be willfully blind to being part of the problem. This is a significant differentiator from the values- and principles-based approach of co-operatives to business.

***What's the point?***

**These are everyone's problems**

The environmental, social and economic problems described above are not just problems for governments, non-governmental organizations and charities to address and resolve. Business enterprise cannot avoid responsibility by acting as if "this is not our concern". While greater focus has been given in recent years to corporate social responsibility, what business enterprises (including co-operatives) must do is to embed meaningful social and environmental goals and measures into their corporate visions, missions, strategies and operations.

Given their common origins as social enterprises and their shared co-operative values and principles, co-operatives are more naturally aligned to take a balanced approach to financial, social and environmental factors. They can

## Five critical things every co-operative leader should know

generate greater aggregate, broadly measured value than investor-owned firms, as they are aiming to accomplish more.

Regarding the narrower, yet still critical, need for a business enterprise to be financially viable and sustainable, co-operatives also have an advantage compared to their investor-owned counterparts. Studies in the provinces of Alberta and British Columbia in Canada have shown that the average survival rate of new co-operatives is almost twice that of traditional businesses, which remains consistent even after five years and 10 years of operation (Stringham & Lee, 2011; Murray, 2011).

### Critical Learning No. 2: “Question your assumptions. Business operates within the finite boundaries of our planet.”

Whether newly hired employees’ prior work and business experience have been with an investor-owned corporation or with a co-operative, they are very likely carrying assumptions and making some or all decisions based upon concepts developed in and for investor-focussed businesses. Such assumptions may include: “*The purpose of our business enterprise is to create and grow financial value for shareholders*”; and, consequently, “*Financial profitability (including return on investment “ROI” and return on equity “ROE”) is our sole business objective.*”

As a co-operative leader in the 21st century, it’s important to re-evaluate these assumptions. While financial goals and outcomes are critical to maintaining the overall health of a co-operative, they should not be its sole goals. Building on Critical Learning No. 1 (*Co-operatives: Why should I care?*), the goals and targeted outcomes of a co-operative should be comprised of (1) financial, (2) social/societal, and (3) environmental components.

#### *“Too much money and not enough earth” [1]*

Scientists call the geological period that includes human history, up to now, the “Holocene” (Agenbrood & Fairbridge, n.d.). John Fullerton (2014) pointed out that, more recently, humankind and the planet itself are entering new, uncharted territory: a new geological period scientists have unofficially called the “Anthropocene” during which the collective activities of human beings have begun to substantially alter the planet and its ecosystems (land, water, air, plant and animal life) (Rafferty, n.d.). Fullerton noted that the 2007 to 2009 global financial crisis brought the world to the edge of financial collapse and, in so doing, raised fundamental questions about the viability, ethics and ideology of the current global financial system.

#### *The real economy versus the finance-driven economy*

According to economists, the real economy is concerned with producing goods and services while the finance-driven economy is concerned with buying and selling on the financial markets (*Financial Times*, 2017). Fullerton contended that there is a significant difference between the real economy and the finance-driven economy. He argued there are serious defects at the core of the finance-driven economy that have led to it becoming significantly out of touch with the real economy and, therefore, require a fundamental re-thinking of the theory and practice of finance. Fullerton’s core premise was that the real economy and, therefore, our financial system is inextricably linked to the biosphere and summed up the problems with the current global financial system as “too much money and not enough earth” (Fullerton, 2014, p. 2).

#### *Current financial theory*

According to Fullerton, current financial theory and practice has sought to optimize financial value, while treating social and environmental objectives as constraints. The foundation for this theory and practice was laid in the 18th century by political and economic thinkers like Adam Smith, who may be most widely known for his economic and market metaphor of the “invisible hand” [2]. However, the scale and impact of today’s global economy is much greater than in the time of Adam Smith (1720-1793). At that time, financial capital was scarce and natural capital (that is, the forests, oceans and the atmosphere) was abundant and seemed endless. The global population stood at approximately 1 billion, the world ran on renewable resources (water, lumber, horses/oxen, etc.), and waste generated by human activity was non-toxic.

Today, there is excess financial capital, but natural capital is being depleted. The global population is over 7 billion (United States Census Bureau, 2017) and humans are depleting the world’s non-renewable resources and generating significant amounts of toxic waste (Fullerton, 2014, pp. 2-3). Rather than free markets and unfettered competition naturally achieving a state of equilibrium, as Adam Smith envisioned, the “free markets” have evolved into monopolies and oligarchies, concentrating financial wealth and power in the hands of fewer and fewer corporations and individuals who ultimately own and control them. It has been said that the reason Adam Smith’s “hand may be invisible is that it is simply not there – or at least that if it is there, it is palsied” (Stiglitz, 2002, p. 473).

***Financial overshoot reinforces ecological overshoot***

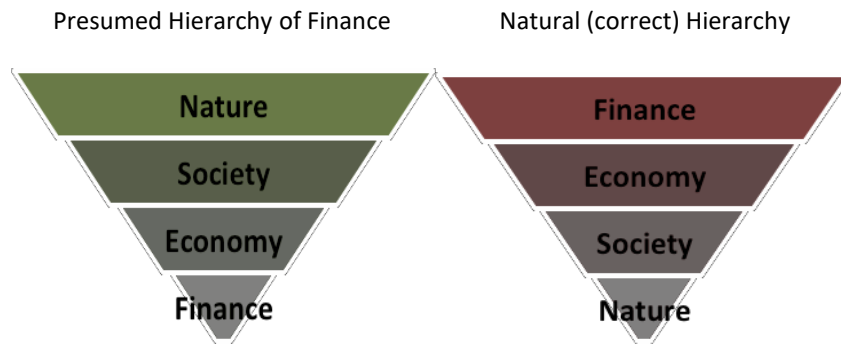
According to Fullerton (2014, p. 3), the finance-driven economy has erroneously equated money with wealth, values only financial capital and does not value human or natural capital. With the finance-driven economy out-of-touch with the real economy, “financial overshoot” has reinforced “ecological overshoot”, making the path to sustainability significantly more difficult.

***A holistic approach to value and wealth***

Fullerton (2014, pp. 4-6) contended that, in the Anthropocene, finance must take a holistic approach to financial, human and ecological value and wealth. He argued that growth in financial capital at the expense of human capital or ecological capital is not truly creating wealth, as both human capital and financial capital, and therefore wealth, depend upon a healthy ecosystem.

Fullerton maintained that optimizing financial outcomes, while treating environmental and social factors as constraints, is inconsistent with the natural hierarchy of interdependent natural systems (which include the economy). Fullerton illustrated and compared the presumed (but incorrect) hierarchy of finance with what he considered the natural (or correct) hierarchy as shown in Figure 1 (Fullerton, 2015, p. 5).

**Figure 1: Hierarchies of Finance and Nature**



***The difference between real investment and financial investment***

Contemporary finance seeks to generate compound interest on capital. However, to achieve this, natural capital is depleted and waste is released into a limited and closed ecosystem. This cycle accelerates entropy or winding down of the world’s ecosystem, which undermines the viability of life on earth. While depletion of natural capital increases financial capital, financial capital is ultimately dependent upon a healthy ecosystem, so this process is inherently self-limiting and cannot continue indefinitely. For Fullerton, today’s finance-driven economy has left the world with an excess of financial capital (which is not fairly distributed) and insufficient social capital, while critical, life-sustaining natural capital continues to decline (Fullerton, 2014, pp. 5-6).

Fullerton considered there is a critical distinction to be made between “financial investment” and “real investment”. Financial investment is primarily concerned with the public trading of equities and fixed income securities (i.e. stocks and bonds) issued by corporations. On the other hand, real investment pertains to investments made in the real



## Five critical things every co-operative leader should know

economy, such as in factories, building and technology. Fullerton said there is a need to focus on the dominant players in the global economy (that is, corporations, governments, and large-scale private investors such as financial institutions and investment funds) and the critical choices they make when investing in the real economy. The choices of investment in the real economy come down to respecting and valuing the natural hierarchy of nature and finance or ignoring it entirely. Examples of these critical choices include investing in coal plants versus wind farms, oil pipelines versus solar energy grids, and roads versus railways (Fullerton, 2014, pp. 6-7).

To emphasize the importance of real investment choices and put them into stark perspective, Fullerton (2014, p. 8) observed that the world's energy reserves (that is, coal, oil, gas) exceed by five times what can be burned without breaching the two degree global warming tipping point beyond which scientists predict catastrophic effects. At the risk of stating the obvious, this is a clear example of how the prevailing business paradigm of (i) investment and financial growth without limits, and (ii) the pursuit of short-term financial gain through depletion of natural capital, collide head-on with the finite limits of the world's ecosystem.

As Fullerton states, "Our financial system is inexorably linked to our ecosystem through the investment function of finance" and, therefore, limits to growth imply limits to investment. Both real investment and financial investment are subject to "the hard boundaries of the safe operating space of our planet". Ultimately, real investment must be viewed through the lens of long-term stewardship versus the conventional lens of short-term gains (Fullerton, 2014, pp. 8-9).

### *What's the point?*

A shift in thinking is needed to challenge conventional wisdom in finance and subordinate financial return to the values which are most important to humanity and on which our very lives depend. As Fullerton (2014) stated, what is required is a:

*subtle but profound shift from thinking of financial return as the objective of investment, to financial return as a constraint, guiding some higher purpose.... Such a shift will allow finance to discover its role as servant to, not master of, an economy that operates within finite ecological boundaries and where wealth inequalities do not increase without limit as a consequence of the working of the system. It demands a completely new theory and practice of finance, grounded in the ethical framework. Much work lies ahead (p. 21).*

Fortunately, this shift is beginning to take place in both thinking and action. The [Global Alliance for Banking on Values](#) (GABV) is an international network aiming to change the banking system so that it is more transparent, supports economic, social and environmental sustainability and serves the real economy through business models based on the Principles of Sustainable Banking (GABV, 2017). Members include large Canadian credit unions Vancity and Desjardins.

Looking ahead through this new perspective, it will be very helpful to consider how it relates to co-operatives, starting with the co-operative identity.

### Critical Learning No. 3: "Co-operative identity: What is it and why is it important?"

#### *Co-operative identity, values and principles*

Co-operatives originated as, and continue to be, member-based and democratically controlled enterprises which operate according to shared values and principles. The International Co-operative Alliance (ICA) provides the following statement of what a co-operative is (commonly referred to as the ICA "Statement of Co-operative Identity"): "A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise" (ICA, n.d.).

Co-operatives subscribe to a common set of values, as reflected in the ICA's statement of co-operative values: "Co-operatives are based on the values of **self-help, self-responsibility, democracy, equality, equity** and **solidarity**. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others" (ICA, n.d.).

Co-operatives put their values into practice and are guided by seven generally accepted co-operative principles (ICA, n.d.): (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.

While much has been written about co-operative values and principles (e.g., Fairbairn (1994), Birchall (1997)), the key learnings for purposes of this paper are that co-operatives are: (1) values-based; and, (2) democratically controlled ("one member, one vote" as opposed to "one share, one vote" for investor-owned organizations). It is also key that ICA values and principles (or variations thereof) are included in the organizational constitutions of individual co-operatives (i.e., their founding articles of incorporation and by-laws) and in their governing co-operative legislation.

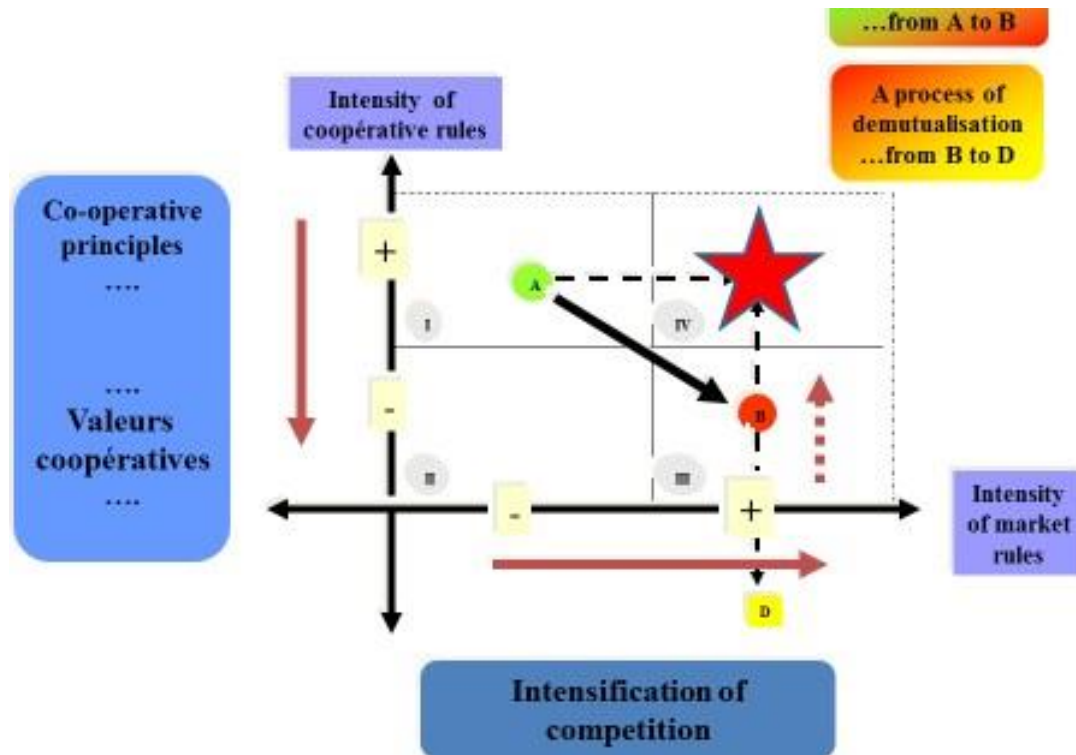
### *A co-operative identity crisis?*

Having a clear and demonstrable co-operative identity is more critical than ever for co-operatives carrying on business in the 21st century. A failure to do so can result in an identity crisis, in which a co-operative has lost touch with its true mission and vision (the primary purpose for which it was originally created and exists) (Schatz, 2015b, p. 1).

According to Côté (2009b), a co-operative identity crisis arises when a co-operative suffers a loss or weakening of (1) co-operative cohesion (among members, between members and the co-operative, and between the co-operative and its strategic arena – its strategic fit), and (2) co-operative equilibrium (between the co-operative as an association and the co-operative as a business enterprise). Côté developed a useful, four quadrant framework to help assess the strength of a co-operative identity (Figure 2 (Côté, 2016b, Slide 62)).



Figure 2: Co-operative Identity Quadrants



*The Evolution of Co-operative Identity* [3]

The author has named Côté's four quadrants (otherwise identified by Roman numerals) as Emerging, Growing, Competing and Transforming. An **Emerging co-operative (Quadrant I)** has the strongest co-operative identity, as it is in the initial stage of creation to meet unmet needs and, accordingly, competition from other entities is virtually non-existent.

A **Growing co-operative (Quadrant II)** is maturing and beginning to lose touch with the needs it was created to meet as competitive pressures increase, but these changes are not yet problematic from a co-operative survival perspective.

Maturing further with the passage of time and experiencing more competition from non-co-operatives, a **Competing co-operative (Quadrant III)** will begin adopting and mimicking the tactics and strategies of its investor-owned competitors in order to maintain and/or grow its competitiveness and market share (Côté, 2001, 2009b, 2015 & 2016). **Competing co-operatives** are most at risk of losing their co-operative identity and selling or converting to investor-owned entities (i.e. demutualizing). However, it is also at this stage that a co-operative has a significant opportunity to self-reflect, reinvent and transform itself into a new and sustainable co-operative for the future (Schatz, 2016a, pp. 3-4).

**Transforming co-operatives (Quadrant IV)** will have rediscovered or reinvented their core co-operative purpose while finding new ways to thrive in intensely competitive markets. The most enlightened and successful **Transforming co-operatives** will be "game changers" in delivering new products and services to meet previously unmet or under-met needs of their members and communities and thus (for at least a brief time) outstrip their competitors (Côté, 2001, 2009b, 2015 & 2016).

### ***What is demutualization?***

Fulton & Girard (2015) defined demutualization as follows:

*Demutualization is the conversion of a co-operative, credit union or mutual into an alternative organizational form (usually one owned by investors). Demutualization can occur through the conversion of equity into investment shares, or it can occur via a merger, takeover or buyout involving companies that usually are not co-operatives or mutuals. Regardless of the form it takes, demutualization typically involves the transfer to private investors of the capital that has been built up over the years in the co-operative (p. 1).*

Fulton & Girard (2015) studied 25 co-operatives and mutuals (collectively, “co-operatives”) in Canada (18), the United States (4), Sweden (2) and Australia (1) which demutualized between 1996 and 2014. They attributed the causes of demutualization to challenges relating to four factors: (1) financial soundness; (2) governance structures; (3) member incentives; and (4) co-operative values and democratic engagement.

Fulton & Girard (2015, p. 1) concluded that demutualization occurs for a variety of reasons, including: (1) Changes in the economic and political environment; (2) A perceived or real lack of access to capital; (3) Poor financial performance; (4) Efforts by managers and others to reposition the co-operative and to benefit personally from this repositioning; (5) Desire by managers and/or board members to make the co-operative similar to the dominant investor-owned business organizations; (6) A focus by members on “unlocking investor value”; (7) A focus by others on “unlocking investor value”; and (8) Loss of member engagement.

Based on their study, Fulton & Girard (2015) raised concerns about demutualization. They concluded it is not an isolated event and indicates the co-operative is not performing well on or paying enough attention to elements necessary for its success including financial performance, member engagement and, most importantly, governance (p. 37). To lower the risk of demutualization, they identified five areas of focus (pp. iii-v): (1) Financial soundness, including strong financial performance, sufficiency of capital, and awareness of changes in economic conditions; (2) Member incentives, including the “unlocking of investor value”; (3) Co-operative values and democratic engagement, including members’ understanding of their co-operative’s value; (4) Regulatory structures and best practice requirements; and (5) Corporate governance structures, including managers’ desire for increased compensation or influence, and poor decisions by the board or management.

### ***Who owns co-operative identity?***

Where do accountability and responsibility (ownership) lie for nurturing co-operative identity and ensuring risk factors are properly addressed? Members appoint and elect directors and provide input and direction for the co-operative through its member governance and engagement processes, including its annual general meeting. Directors have accountability and responsibility for overall governance of the co-operative, including providing input and approval to strategic, operational and financial/budget plans and results presented by management. However, especially in larger co-operatives (including The Co-operators), because of its expertise and management of the day-to-day operations of the co-operative, management holds considerable power and influence in the direction and results of the co-operative.

Management cannot be regarded by members and directors (or regard themselves) as “hired hands” who carry out the co-operative bidding of the members and directors. Management must also be regarded, and regard themselves, as a critical stakeholder, influencer and enabler to ensure that, along with members and the Board, the co-operative not only talks like a co-operative, but walks, acts and leads like a co-operative. Without the alignment and focus of members, directors and management, the risk of fundamental change in the co-operative’s purpose and of demutualization become much greater.

### ***What’s the point?***

The loss of co-operative identity is a “silent risk” for co-operatives, particularly successful ones. It can creep up on a co-operative and become a material threat to its co-operative existence (that is, demutualization). Theoretically,

## Five critical things every co-operative leader should know

single issue, large-scale business decisions made by a co-operative can increase the risk. However, in reality, the risk is more likely to increase in smaller increments, through day-to-day decisions that are made without the “compass” of, specifically, a co-operative’s mission, vision and values and, generally, co-operative values and principles (Schatz, 2016a, p. 4).

The loss of co-operative identity is facilitated by a loss of “co-operative consciousness” among co-operative leaders. It is usually not a case of leaders making decisions that are deliberately contrary to co-operative values and principles. Rather, it is caused by decisions that appear reasonable and appropriate in the narrower business circumstances and context in which they are made. To this end, it will be helpful to consider next how a co-operative may end up on a “slippery slope” towards losing its identity and, potentially, demutualizing.

### Critical Learning No. 4: “Be aware of the invisible, yet powerful forces shaping your co-operative.”

There are invisible, yet very powerful external and internal forces at work that influence and shape a co-operative. If co-operative leaders maintain awareness of these forces, they can take steps to help offset the potential negative impact on their organization’s co-operative identity. Unaware, a co-operative may lose its way and become detached from its purpose and co-operative identity. The name for this organizational phenomenon is isomorphism.

#### *Isomorphism (a.k.a. “shape-shifting”)*

“Isomorphism” is a very useful concept which helps explain the forces at work in organizations (whether investor-owned, co-operative or non-profit) that compel them to become like other organizations. In lay person’s terms, this concept can be called “shape-shifting.”

DiMaggio & Powell (1983) observed that within the same or similar fields or industries (e.g., banking, insurance, auto manufacturing), the efforts of individual organizations to deal rationally with uncertainty and constraint often led to homogeneity in structure, culture and output with other organizations. They determined that the concept that best explained this phenomenon was isomorphism and maintained that there are two types of isomorphism, competitive and institutional. Competitive isomorphism is most relevant where there is free and open competition solely for resources and customers. However, the concept of institutional isomorphism presents a fuller picture of organizations today, which also compete for political power, institutional legitimacy and social and economic fitness (p. 149-150).

Similarly to the “assumption” element of Critical Learning No. 2 (*Question your assumptions: Business operates within the finite boundaries of our planet*), DiMaggio and Powell explained:

*[W]e emphasize adaptation, but we are not suggesting that managers' actions are necessarily strategic in a long-range sense. Indeed, two of the three forms of isomorphism described below - mimetic and normative - involve managerial behaviors at the level of taken-for-granted assumptions rather than consciously strategic choices (p. 149, footnote 5). [emphasis added]*

#### *The Three Mechanisms of Institutional Isomorphic Change*

DiMaggio and Powell (1983) identified three mechanisms through which institutional isomorphic change occurs: coercive isomorphism, mimetic isomorphism and normative isomorphism. **Coercive isomorphism** results from pressures exerted on organizations by other organizations upon which they depend and by cultural expectations in the society within which they function. Examples would include applicable laws, governments and regulators (p. 150).

**Mimetic isomorphism** (or imitation) occurs when organizations model themselves after other organizations. Its most powerful driver is uncertainty in the operating environment or because the organization has ambiguous goals (pp. 150-152). Matters taken for granted and non-intentional decision-making have an effect. DiMaggio and Powell (1983) explained:

*Modeling, as we use the term, is a response to uncertainty. The modeled organization may be unaware of the modeling or may have no desire to be copied; it merely serves as a convenient source of practices that the borrowing organization may use. **Models may be diffused unintentionally, indirectly through employee transfer or turnover, or explicitly by organizations such as consulting firms or industry trade associations** (p. 151). [emphasis added]*

In a statement directly applicable to larger co-operatives (including The Co-operators, many or most of whose customers are not co-operative members), DiMaggio and Powell (1983) observed:

*[T]he wider the population of personnel employed by, or customers served by, an organization, the stronger the pressure felt by the organization to provide the programs and services offered by other organizations. Thus, either a skilled labor force or a broad customer base may encourage mimetic isomorphism (p. 151).*

The third mechanism of organizational change is **normative isomorphism**, which DiMaggio and Powell (1983) attributed largely to “professionalization” of occupations in which members define the conditions and methods of their work (e.g., accountants, actuaries, lawyers) and apply them in the organizations where they work. The professionals in such occupations will have virtually the same formal education and training and form professional networks across organizations, which facilitate the diffusion of new ways of doing things. DiMaggio and Powell (1983) noted:

*Such mechanisms create a pool of almost interchangeable individuals who occupy similar positions across a range of organizations and possess a similarity of orientation and disposition that may override variations in tradition and control that might otherwise shape organizational behavior (p. 152).*

DiMaggio and Powell (1983) further noted that “filtering of personnel” plays a significant role in facilitating normative isomorphism and occurs in several ways as a result of organizations:

- *Hiring employees from other firms in the same industry;*
- *Recruiting new employees from a narrow range of educational and training institutions;*
- *Having common promotion practices (such as always hiring top executives from the finance or legal departments); and*
- *Having common skill-level requirements for certain jobs (p. 152)*

Again, in an observation that could be readily applied to larger co-operatives (including The Co-operators), DiMaggio and Powell (1983) explained:

*Many professional career tracks are so closely guarded, both at the entry level and throughout the career progression, that individuals who make it to the top are virtually indistinguishable.... To the extent managers and key staff are drawn from the same universities and filtered on a common set of attributes, they will tend to view problems in a similar fashion, see the same policies, procedures and structures as normatively sanctioned and legitimated, and approach decisions in much the same way (pp. 152-153).*

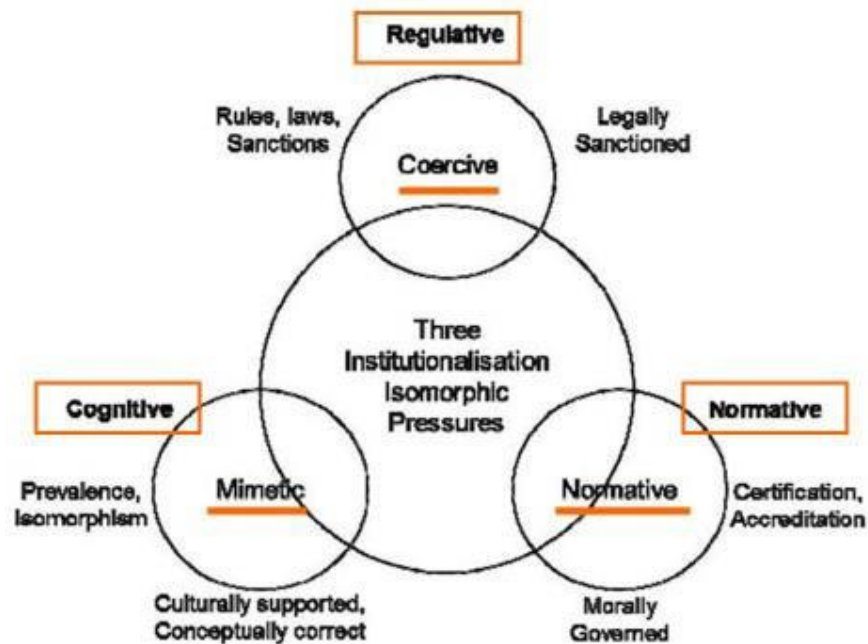
DiMaggio and Powell (1983) noted, too, that occupational socialization also acts as an isomorphic force through trade association seminars and workshops, continuing professional education programs, consulting arrangements and through employer and professional networks. Professional and trade associations also act as isomorphic forces when organizations and their personnel are placed in positions of substantive or ceremonial influence, such as being appointed to Boards of other organizations, participating in industry-wide advisory councils and being consulted by

## Five critical things every co-operative leader should know

government agencies. All of this leads to the copying of policies and structures throughout the applicable industry or field (p. 153).

In discussing isomorphism in the co-operative context, Côté (2015) provided the helpful illustration of institutional isomorphic pressures identified by DiMaggio and Powell (1983) in Figure 3 (Côté, 2015, Slide 38).

**Figure 3: Institutional Isomorphic Pressures**



### *Isomorphism and Co-operatives*

Bager (1994) studied isomorphic processes in the context of the transformation [4] of Scandinavian consumer and farmer co-operatives. He noted that the institutional framework for co-operatives is comprised of a number of components, including co-operative legislation (national, state and/or provincial), regulatory measures (e.g., in some countries, tax exemption), international promotion (such as by the International Co-operative Alliance), national umbrella organizations, sector-wide or regional federative organizations, and co-operative credit institutions (pp. 39-40).

Bager (1994) explained that a major purpose of these co-operative institutions and organizations is to preserve the identity of co-operatives. In contrast to other types of organizations, Bager described what co-operative identity is:

*From an ideal-type point of view, a cooperative is a member oriented type of business organization, formed by the members - the members usually being physical persons - with the aim of improving their economic situation by running a common enterprise. This makes them unique and different from other basic types of organization: in contrast to non-profit organizations and associations they differ by running enterprises and being self-help oriented; in contrast to public organizations they are private; in contrast to limited companies their objective is to promote the interests of the members, not to maximize profit, and in contrast to family enterprises and partnerships, cooperatives contain a stronger collective element (p. 40).*

According to Bager (1994, p. 40), co-operatives are subject to two types of environmental pressure. Firstly, they face pressure from other organizations (non-cooperative and co-operative alike) which may present opportunities for

action or, conversely, impede action. Secondly, co-operatives experience pressure from other co-operative organizations and institutions to conform to their co-operative identity (p. 40). In this regard, Bager offered an insightful summation of co-operative identity:

*From an ideal-type point of view, members are the founding fathers and masters of cooperative organizations, decisions are based on their interests, and benefits are distributed among them. Member orientation and member control – in real life, not only in formal terms – is therefore the true touchstone of cooperative identity (p. 41).*

#### Normative Isomorphism

Bager (1994) noted that today's large-scale co-operatives have many highly educated and trained staff, including members of professional groups, which is the primary contributor to normative isomorphism (per DiMaggio and Powell, 1983). This makes it increasingly difficult for elected boards of co-operatives to handle management of the co-operative, maintain member control over the co-operative, and prevent management of the co-operative from reorienting the co-operative's goals (p. 42).

#### Competitive Isomorphism

Bager (1994) explained that the impact of competitors on co-operatives can be very direct, particularly when the actions of dominant competitors leave little or no choice but for the co-operative to follow suit. New technology may also force organizational change upon a co-operative, even at the risk of endangering its co-operative identity. However, the influence of competitors and technology can also be subtle; for example, a co-operative copying what its non-co-operative competitors are doing (mimetic isomorphism). On the other hand, a co-operative may "put blinders on", be resistant to change, and fail to adopt suitable new technology that may add value to their co-operative and their members (pp. 42-43).

This appears to be a fine line or delicate balance for co-operatives: resist blindly imitating competitors, but don't resist imitating competitors too much. Individual co-operatives may need guidance and support from other co-operative organizations (such as co-operative federations, etc.) to find the balance.

#### Non-congruent Isomorphism

Bager (1994) further noted (p. 43) that two forms of isomorphism played essential roles in the transformation of Scandinavian co-operatives from their original co-operative form:

1. **Congruent isomorphism** which homogenizes the population (or subpopulation) of co-operatives and sharpens its profile vis-a-vis non-cooperatives; and
2. **Non-congruent isomorphism** which homogenizes co-operatives with non-cooperatives.

Bager (1994) noted that at the core of the transformation of co-operatives was the balance between congruent and non-congruent isomorphism, with the probability of transformation increasing as non-congruent isomorphism increased and began to dominate. Bager also noted that transformation was not influenced only by the external pressures of congruent and non-congruent isomorphism, but also by internal processes (p. 43). A long-term, historical view is also helpful in understanding congruent and non-congruent isomorphism. As Bager explained:

*In their early phase cooperatives set up a myriad of federative organizations and members were in control, while later on, when large-scale, centralized cooperatives emerged, the federative organizations and the cross sector cooperative identity tended to weaken, as did members' control of the cooperatives. Thereby they became more open to non-congruent isomorphism and transformation (p. 43).*



## Five critical things every co-operative leader should know

### Transformation of Scandinavian Consumer Cooperatives

Bager (1994) noted that co-operatives in industrialized countries have undergone major changes in recent decades, in which private retailers have challenged and, in many cases, out-competed cooperatives. Member-cooperative relations have also changed significantly. In a statement that could apply to consumer co-operatives and credit unions in Canada, Bager explains:

*[E]conomic ties between members and cooperatives have been almost cut (low or no membership fees, no member liability, no difference in buying conditions for members and non-members, dividends insignificant or abandoned); and members have tended to lose interest in the cooperatives, partly because they can see little difference between their performance and that of their competitors, and partly because consumers have become more pragmatic and less ideological (p. 46).*

Bager (1994) noted that the combination of weak member interest, increasing employee dominance and increasing pressure from non-cooperative competitors has resulted in the partial transformation of Scandinavian consumer co-operatives (p. 46). He quoted from a study of consumer co-operatives in 10 industrialized countries which concluded: “[T]he old ideological commitment seems to be dying out ... members tend to become pure customers ... *managers of cooperative enterprises regard them as the problem not the solution* [emphasis added] (Brazda & Schediwy 1989: 35)” (p.46) [5].

Bager (1994) observed that the decline in the influence of members in their co-operative created a vacuum which was filled by its employees and professional organizations (that is, normative isomorphism). As he explained in relation to Scandinavian consumer co-operatives:

*The number of highly educated staff has tended to grow and the once dominant practice of internal recruitment of top managers and other management level staff has largely been abandoned. Most managers are now recruited from outside, with little theoretical and practical knowledge of the specific characteristics of cooperative organizations, and with an educational background and a network which promotes for-profit thinking. At universities and commercial colleges they were taught how to run profit-oriented limited companies, not how to run member-oriented cooperatives, which makes them inclined to copy the way commercial undertakings organize their businesses and the goals they pursue (pp. 47-48).*

Bager (1994) also observed that the decline in member-orientation led to changes in terminology (“members” to “consumers”) and opened the door to a narrower management-controlled evaluation of results (versus a more comprehensive evaluation) which is a pure profit evaluation, as with investor-owned companies. He quoted a 1985 statement from the top manager of a Danish consumer co-operative as evidence: “In principle we can only be satisfied when our own capital yields a profit equivalent to what can be achieved by alternative allocation of capital” (p. 48) [6].

Bager (1994, p. 49) concluded that for Scandinavian consumer co-operatives, the balance had shifted from congruent isomorphism to non-congruent isomorphism reflecting that the co-operatives were no longer clearly member-oriented and were moving quickly toward profit orientation. He said that the build-up of market and state (that is, competitive, governmental and regulatory) pressures over the years, combined with the weakening of member control, was the key to understanding the trend of transformation of Scandinavian consumer co-operatives (pp. 53-54).

Lastly, Bager (1994) observed that a co-operative has dual characters: as an enterprise and as an association and further elaborated:

*In a way, cooperatives live in two worlds: the world of enterprises dominated by technological and economic factors, and the world of associations dominated by socio-political factors. In order to reproduce their cooperative identity they have to operate satisfactorily in both worlds,*



*combining internal processes of reproduction with the ability to cope with environmental, isomorphic processes (p. 54).*

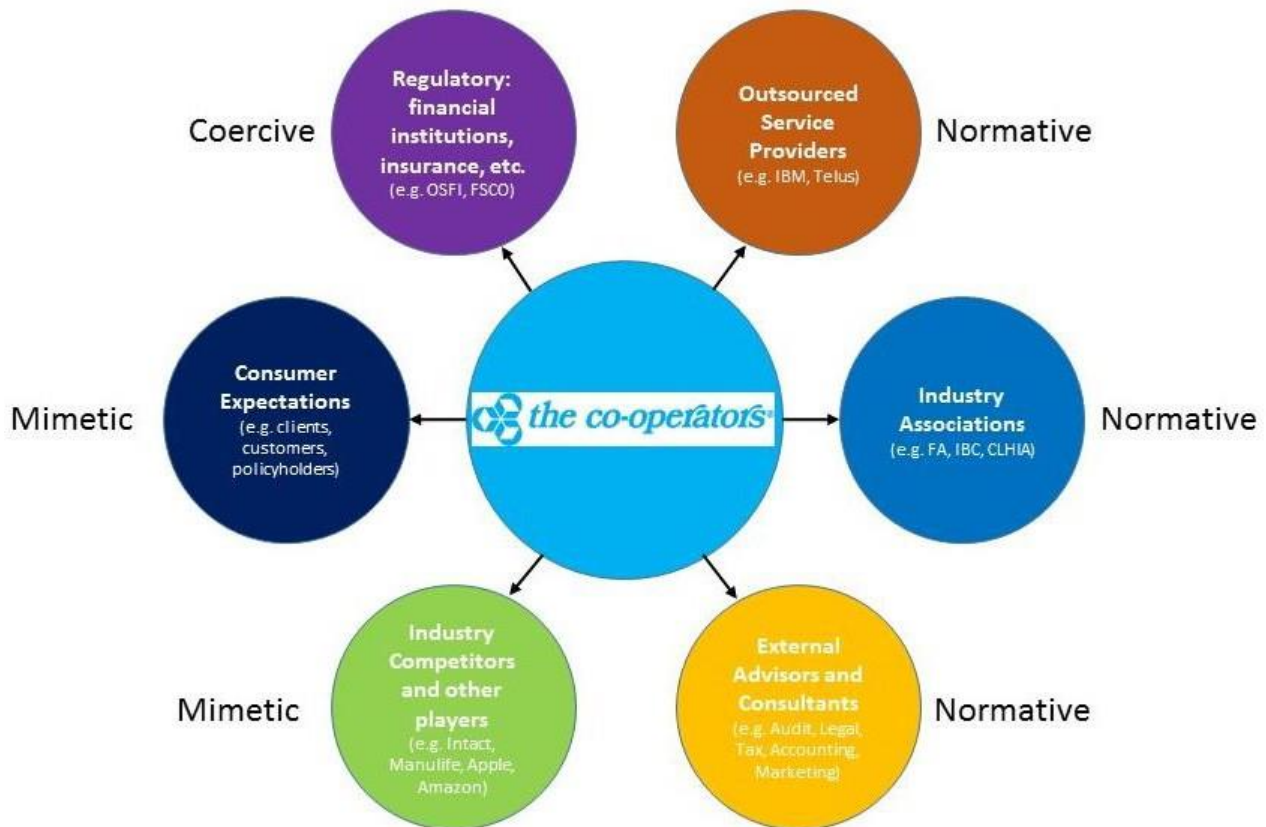
**Isomorphism and The Co-operators**

The insurance company subsidiaries of The Co-operators operate in the highly regulated Canadian financial services industry in which the same laws apply to all industry players, co-operative and non-cooperative alike. As a result, and as a good example of coercive isomorphism, The Co-operators is obliged to organize itself and manage its operations in very similar ways to its similarly regulated, non-cooperative competitors. In addition, The Co-operators is continually monitoring its competitive environment and incorporating learnings into its strategic and operational plans. While The Co-operators offers a handful of insurance products specifically designed for co-operatives and their members, generally, insurance products are very similar across the industry. As a result, and as a good example of mimetic isomorphism, there is significant pressure on The Co-operators to copy, keep up with and get ahead of its non-co-operative competitors (Schatz, 2016a, p.5).

**Predictors of Isomorphic Change**

There are a number of sources of isomorphic pressure at work on The Co-operators, illustrated in Figure 4.

**Figure 4: The Co-operators: Sources of Isomorphic Pressure**



**What's the point?**

Isomorphic processes are almost certainly at work in individual co-operatives to varying degrees. Without conscious vigilance, isomorphic forces will, over time and most likely imperceptibly, risk transforming the co-operative from the inside out into a co-operative organization in name only (Schatz, 2016a, p. 4).

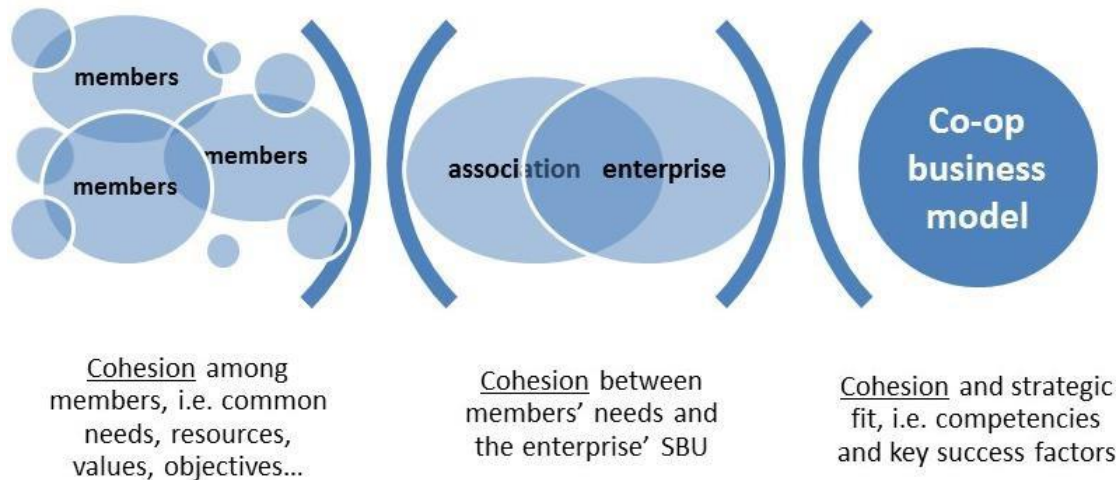
## Five critical things every co-operative leader should know

Bager's (1994) observation of the dual character of a co-operative as both enterprise and association also applies to larger co-operatives like The Co-operators. It is not a battle for supremacy between two separate and distinct aspects but a recognition of their complementary roles, which must be respected and balanced.

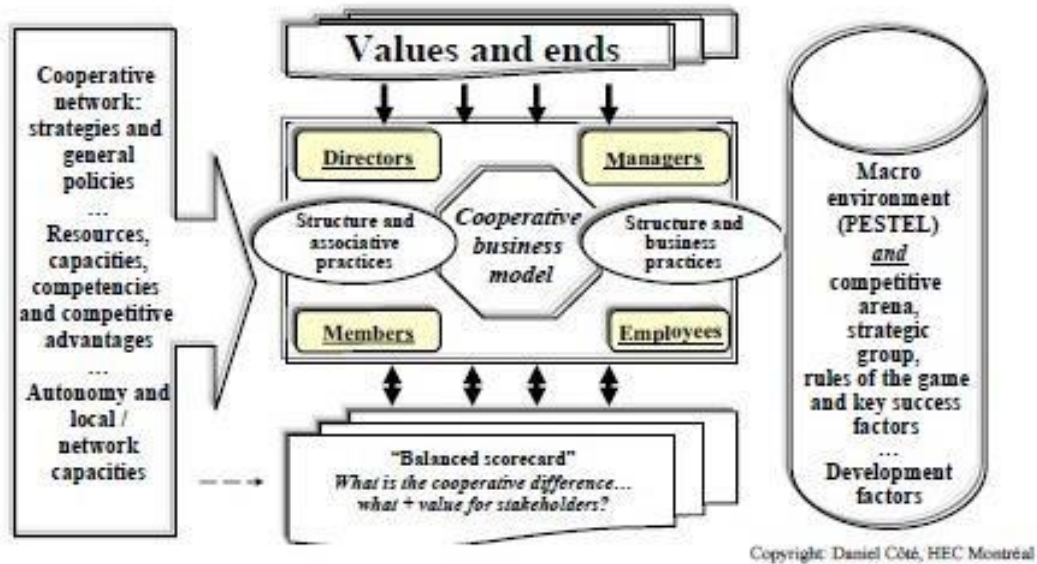
In the same vein, when the pressures exerted on co-operatives by congruent and non-congruent isomorphism are in balance, the co-operative will remain in a healthy state with respect to both (1) a competitive sense; and (2) its co-operative identity. When not in balance, the co-operative will be in an unhealthy state. Yielding more to competitive pressures, the co-operative will risk erosion of its co-operative identity. Conversely, if it focusses more on its co-operative identity than on staying competitive, the co-operative's financial health and viability may be in jeopardy. In both situations, transformation or demutualization of the co-operative may result.

The concept of co-operative duality is also reflected in Côté's (2009a) work on the subject. Figure 5\_(Côté, 2016a, Slide 27) illustrates Côté's concept of cohesion, which is needed for co-operative balance or, as he termed it, "co-operative equilibrium".

**Figure 5: Co-operative Duality**



As illustrated in Figure 6, (Côté, 2009a, p. 6), Côté's co-operative equilibrium is a very useful conceptual framework as it recognizes that: (1) there are competing factors at play in a co-operative; (2) these competing factors are naturally at odds with each other; and (3) to be a truly successful co-operative, these competing factors must be maintained in dynamic balance and equilibrium.

Figure 6: Co-operative Equilibrium

Côté's (2009a) framework can be used by co-operative leaders to help guide their strategic analyses and decision-making as well as their day-to-day operational and tactical decision-making. The framework can also act as a very useful reminder that co-operatives cannot be managed and run in the same way or with the same managerial mindset as investor-owned organizations without adversely affecting the very nature of the organization as a co-operative (Schatz, 2015a, p. 1). A co-operative which has found the ideal balance, or equilibrium, between its nature as an association and its nature as an enterprise, would be placed in Côté's (2016b) Quadrant IV (Transforming) (Figure 2).

If one accepts the premise in Critical Learning No. 1 (*"Co-operatives: Why should I care?"*) that co-operatives, individually and collectively, are an important and necessary component of the local, regional, national and global economic, social and environmental fabric, then gaining insight and awareness of isomorphic forces is the first step in managing and influencing these forces in ways that nurture and support the long-term vitality and sustainability of both one's own co-operative and the broader co-operative community.

### *What can co-operatives do to counter the effects of isomorphism?*

#### *Align to "True North" and course correct as needed*

In a world dominated by investor-owned enterprises, the first step for a co-operative to counter the effects of isomorphism is to engender "co-operative consciousness." Co-operative leaders must keep a sharp and clear focus on why they are doing what they are doing (Schatz, 2016a, p.5). To employ the analogy of a compass, this "why" is the "True North" of co-operative values and principles.

An important element in manifesting co-operative identity in day-to-day operations and decision-making is to implement procedures and processes to make, measure and periodically report on operational and strategic decisions that align with the "True North" as well as the co-operative's own mission and vision. This does not mean that all decisions will fully align with co-operative values and principles. However, when they don't, they should be made consciously and with the concurrence of senior management and/or the Board of Directors and, ideally, include a plan to course correct, realigning with co-operative values and principles within a reasonable time.

## Five critical things every co-operative leader should know

### The importance of education

There is an important precondition to enable co-operative leaders to, firstly, be aware and sensitive to the fact that their co-operative may be veering off course and, secondly, enable them to plan and implement a course correction. That first step is building co-operative knowledge through education about the nature of co-operatives and how, as values- and principles-based enterprises, they differ fundamentally from investor-owned enterprises. It is also vitally important to ensure co-operative leaders question their basic business assumptions. In short, education along the lines of the critical learnings discussed in this paper would be a very good starting point.

Co-operative consciousness, direction-setting and course correcting can only be accomplished through a healthy combination of leadership, followership and courage, the focus of our fifth and last critical learning.

### *Critical Learning No. 5: “The importance of leadership, followership and courage”*

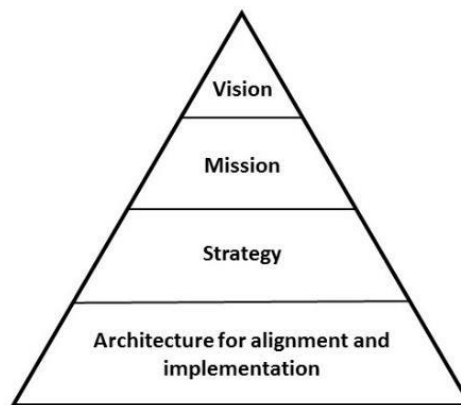
What does leadership mean in the context of co-operatives? Is there a form of leadership that is better suited to the values- and principles-based underpinnings of co-operatives, particularly looking ahead to the challenges of the future? A review of some key concepts regarding leadership and followership generally will be helpful.

### *Strategic Leadership [7]*

Strategic leadership is about understanding and managing the relationship between an organization’s external environment and the choices it makes about vision, mission, strategy and implementation. An organization’s vision should reflect its environment and express a compelling, energizing and ideal future for the organization. Guided by its mission – its core values, purpose, and reason for existence – an organization’s vision should be feasible, and therefore credible, but should not be readily attainable without considerable effort. An organization’s vision will change over time, but its mission, as a fundamental characteristic of the organization, should endure (Daft, 1999, pp. 125-144).

An organization’s vision, mission and strategy and the architecture for alignment and implementation exist in a hierarchy and each level supports the level above it, as shown in Figure 7 (Daft, 1999, p. 125).

**Figure 7: The Domain of Strategic Leadership**



:

Ultimately, strategy is about translating vision and mission into action. It involves developing an action plan and allocating the necessary resources to help the organization achieve its goals. Successful companies develop strategies that focus on building core competencies, developing synergies, and creating value for customers and other stakeholders (Daft, 1999, p. 144).

### *Transformational Leadership* [8]

The world is changing more rapidly than ever before. Forces driving the need for major organizational change include globalization, technological change, increased competition and changing markets. They give rise to more threats as well as more opportunities. Transformational leadership can lead an organization through major changes and renewal and is best understood in comparison to transactional leadership (Daft, 1999, p. 427).

**Transactional leadership** involves a series of economic and social transactions in which the leader recognizes and strives to meet the needs of followers; in exchange, followers perform specified duties to meet specified objectives. Transactional leadership keeps organizations running smoothly and efficiently and maintains stability, which is important for all leaders. However, it maintains the status quo. When organizational change is required, a different type of leadership is required (Daft, 1999, p. 427).

**Transformational leadership** can entirely renew an organization. It can effect significant organizational change by changing a company's vision, strategy and culture and by promoting innovation. As Daft (1999, p. 446) noted, "Transformational leadership inspires followers to go beyond their own self-interest for the good of the whole, and it paints a compelling vision of a desired future that makes the pain of change worth the effort." Major change is difficult, but transformational leaders can follow an eight stage model of planned change: (1) establish a sense of urgency; (2) establish a coalition; (3) develop a vision and strategy; (4) communicate the vision and strategy; (5) empower employees to act on the vision; (6) generate short-term wins; (7) consolidate improvements, tackle bigger problems, and create greater change; and (8) institutionalize the new approaches in the organization culture (Daft, 1999, pp. 430-432, 446).

### *Discussion* [9]

Through vision, mission, strategy and implementation, strategic leadership is all about organizational direction and goals and how to get there. It is important to ensure that the entire organization is pulling in the same direction towards the same objectives. As well, the importance of followership, including the mutual exchange of influence between leaders and followers, should not be underestimated. The resulting development of community within an organization, as noted by Daft (1999, p. 411), bears on the co-operative context, in which community is integral to co-operative values and principles.

Both strategic and transformative leadership can bring about change to an organization and better prepare it for the future. However, transformative leadership recognizes the need for continuous change. Transformative leadership motivates individuals, promotes innovation, and looks to change not only the organization but also its employees and empowers them to act on the vision.

### *Co-operative Leadership Frameworks* [10]

#### **Collective and Delegated Models**

Davis maintained that leadership in co-operatives has been in crisis as the two predominant and competing models of democratic leadership in co-operatives today – the collective, shared leadership model and the model of delegation to elected Boards – are not the best models. The collective model of leadership may be a practical option for smaller co-operatives, but not for larger and more complex co-operatives. The latter use a model of delegated leadership (by members of the co-operative) to an elected Board which has resulted in most of the authority and power being assumed by CEOs and their appointed executives as they have the technical knowledge and skills to operate the core business of the co-operative. According to Davis, under the Board delegation model, large co-operatives have been negatively affected by "creeping managerialism" leading to loss of co-operative identity (Davis, 2004, p. 87).

#### **Servant Leadership**

Davis (2004) argued that the better model for co-operative leadership, and the nexus of reconciliation between the Board delegation and collective models of co-operative leadership, is the "servant-leader" model which Daft (1999) defined as follows:

## Five critical things every co-operative leader should know

*Servant-leadership is leadership upside down. Servant-leaders transcend self-interest to serve the needs of others, help others grow and develop, and provide opportunity for others to gain materially and emotionally. The fulfilment of others is the servant-leader's principal aim (p. 374).*

Servant-leadership appears to be ideal for the co-operative context, in which co-operatives exist to serve their membership. As Davis (2004) stated:

*We desperately need managers who have the qualities to take responsibility for leading and building the whole community of members and employees into a social and value-based business, seeking the fulfilment of the cooperative purpose (p. 94).*

Building on the concept of servant-leadership, Davis (2004) offered the following definition of co-operative management:

*Cooperative management is conducted by men and women responsible for the stewardship of the cooperative community, values and assets. They provide leadership and policy development options for the cooperative association, based upon professional training and cooperative vocation and service. Cooperative management is that part of the cooperative community professionally engaged to support the whole cooperative membership in the achievement of the cooperative purpose (Davis, 1995, p. 16).*

Davis concluded that co-operative management is the toughest and most crucial strategic challenge facing human resource development in the co-operative movement. For Davis, co-operative leadership needs (1) a clear mission (the ICA Statement on the Co-operative Identity), (2) a clear vision (integrating social and business cultures to empower people), and (3) clear principles. Davis and Donaldson (1998) set forth seven principles of co-operative management: pluralism; mutuality; individual autonomy; distributive justice; natural justice; people-centredness; and multiple role of work and labour. The principles provide guidance to implementing a co-operative social capital management (CSM) strategy which seeks to use (1) social values to envision business practice and (2) professional management techniques to enhance associational effectiveness (Davis, 2004, pp. 96-97).

### ***Courageous Leadership*** [11]

As Daft (1999) noted, "leadership demands courage" (p. 378). Moral leadership, which is required to build an ethical culture, requires leaders to reach deep within themselves and find the courage to stand up for their beliefs. In large organizations the importance of courage is easily obscured by pressures to get along, fit in and do what is needed to earn bonuses, pay raises and promotions. The challenge in today's business and economic environment, where arguably stability and abundance are the norm, is where to find courage when you need it (Daft, 1999, p. 378). Daft's definition and explanation of courage is inspiring:

*The defining characteristic of courage is the ability to step forward through fear. Courage doesn't mean the absence of doubt or fear, but the ability to act in spite of them.... Courage is not another word for fearless. In fact, if there were no fear or doubt, courage would not be needed (p. 379).*

Daft further explained that many fears are learned, but "true leaders step through these learned fears to accept responsibility, take risks, make changes, speak their minds, and fight for what they believe in" (1999, p. 379). In a point especially relevant to co-operative leadership, he stated that: "Balancing profit with people, selfishness with service and control with stewardship requires individual moral courage" (p. 383). Moral leadership requires courage and requires leaders to be self-analytical and know their strengths and weaknesses, even if doing so may be painful. Moral leadership also means building relationships, which requires sharing one's self, having significant personal experiences with others and making one's self vulnerable, which can be frightening. It also means accepting emotions as a source of strength rather than weakness and understanding that true power lies in the emotions that connect people.



### *Followership* [12]

“He who thinks he leads, but has no followers, is only taking a walk” (Maxwell, 2010).

The quote above is a fundamental truth in organizational life and applies to both co-operatives and investor-owned firms, particularly as organizations strive to boost employee engagement through empowerment. It is a simple statement of the vital importance of both leaders and followers in an organization. Followers influence leaders as much as leaders influence followers and leader-follower relationships are reciprocal. The influence of followers can enhance a leader or highlight his or her shortcomings. Effective followers also possess many qualities desirable in a leader: demonstrating initiative, independence, commitment to common goals, courage, as well as enthusiastic support for the leader. However, effective followers must also be ready, willing and able to challenge a leader who threatens the values or objectives of their organization (Daft, 1999, pp. 397-414).

Strategies for being an effective follower include being a resource, helping the leader be a good leader, building a relationship with the leader, and viewing the leader realistically. Followers want and expect both their leaders and their colleagues to be honest and competent, but they also want their leaders to be forward thinking and inspirational. It is the two latter traits that distinguish the role of leader from follower. Followers want their peers to be dependable and co-operative and their leaders to lead, but not control them. As Daft (pp. 411-413) notes, these features help develop community, which enables followers to prosper and to share leadership in organizations.

### *What’s the point?*

#### Courageous Leaders and Co-operatives [20]

The entire concept of courageous and moral leadership seems designed for co-operatives. The exercise of courageous leadership appears to be the only way that co-operatives can truly achieve their individual and collective potential to enhance the economic, social and environmental welfare of their members, their communities and the planet in the 21st century and beyond.

#### Leadership Challenges for Co-operatives

Co-operatives face two main challenges to recruiting, selecting and developing courageous leaders. The first challenge is to understand and accept that courageous leadership is fundamental to the healthy functioning and long-term survival and vitality of a co-operative. Co-operatives need courageous leadership and courageous followership throughout their organizations.

The second challenge is for co-operatives to not rely exclusively upon recruitment and management screening and assessment practices that were designed for mainstream, investor-owned organizations (e.g., psychological and aptitude testing, work simulations and personal interviews with behavioural psychologists). Such tools should be understood and applied in the non-cooperative context for which they were built, while co-operative assessment tools are used to provide an over-arching assessment of the prospective management and leadership candidate’s co-operative leadership attributes and potential (that is, personal values and principles, leadership courage, personal moral courage, etc.).

### Conclusion

We live in a complex world and now stand collectively at a crossroads. The planet and its people face significant and complex problems. The accompanying potential for massively adverse economic, social and environmental consequences are not just problems for governments, non-governmental organizations and charities to address and resolve. No person or organization can avoid responsibility. Individuals and businesses who are not part of the solution remain part of the problem.

Co-operatives are naturally designed and aligned to be part of the solution. They are well-positioned to facilitate a fundamental shift in thinking that (1) recognizes the economy operates within the finite boundaries of our planet, and (2) subordinates financial returns, while critical to the overall health of co-operatives and other businesses, to



## Five critical things every co-operative leader should know

the values most important to humanity and the planet. To do so, co-operative leaders at all levels must understand the potential of co-operatives to lead the shift, apply co-operative values and principles and work to nurture and maintain their co-operative identity, countering the risks of isomorphism and demutualization.

In so doing, co-operatives may also nurture and exercise both courageous leadership and courageous followership. Co-operatives seeking to transform and better equip themselves to address and successfully deal with the business, economic, social and environmental challenges ahead, will need to do some things differently. They should start with how they define the attributes they are seeking and recruit, select and develop managers and leaders.

### Notes

1. Fullerton (2014, p. 2).
2. Adam Smith's "invisible hand" stood for the proposition that the cumulative effect of individuals acting in their own economic self-interest, and having no intentions beyond that, will be broader beneficial economic and social outcomes. The concept has been employed to support the controversial argument that free markets deliver the best social and economic outcomes (Heath, n.d.).
3. Adapted from Schatz (2015b, 2015c and 2016a).
4. Bager (1994) employed the term "transformation," in the context of co-operatives, to mean changing from its original co-operative form to another form. When the new form is an investor-owned business, it is more commonly referred to as "demutualization."
5. The italicized part of this quotations, put in a form of a question: "Does management consider members (1) part of the solution? or (2) part of the problem?" could be a very useful diagnostic criterion for assessing the health and strength, or lack thereof, of a co-operative's identity.
6. Author's note to the reader: Does this statement sound familiar to you?
7. Adapted from Schatz, Dutka and Dykstra (2016).
8. Adapted from Schatz, Dutka and Dykstra (2016).
9. Adapted from Schatz, Dutka and Dykstra (2016)
10. Adapted from Schatz (2016b).
11. Adapted from Schatz, Dutka and Dykstra (2016).
12. Adapted from Schatz (2016b).

### References

- Agenbroad, L.D. & Fairbridge, R.W. (n.d.). Holocene Epoch. In *Encyclopedia Britannica*. Retrieved from <https://www.britannica.com/science/Holocene-Epoch>.
- Bager, T. (1994). Isomorphic Processes and the Transformation of Cooperatives. *Annals of Public & Cooperative Economics*, 65(1), 35-57.
- Birchall, J. (1997). *The international co-operative movement*. Manchester, UK; New York: New York: Manchester University Press; Distributed exclusively in the USA by St. Martin's Press.
- Canadian Credit Union Association. (2016). *2016 Credit Union Community & Economic Impact Report*. Retrieved from [https://www.ccu.com/~media/CCUA/member\\_corner/publications/pdfs/2016CUCEIRReportDigital.pdf](https://www.ccu.com/~media/CCUA/member_corner/publications/pdfs/2016CUCEIRReportDigital.pdf).
- Co-operatives and Mutuals Canada. (n.d.). Types of Co-operatives and Mutuals in Canada. Retrieved from <http://canada.coop/en/co-operative-sector-profiles-0>.
- Côté, D. (2001). Co-operative holding companies: Typology, issues and possible solutions, in *Les Holdings Coopératifs: Évolution ou transformation définitive*, De Boeck Université, (in French) pp. 385-402.

- Côté, D. (2009a), Managing cooperative equilibrium: A theoretical framework. *Économies et solidarités*, 38 (1), 112-126.
- Côté, D. (2009b). The cooperative organizational model in the 21st century: a new cooperative paradigm in response to the identity crisis. *International Journal of Projects*, 2, 61-84.
- Côté, D. (2015). *Co-operatives and the identity crisis: Is there a future for co-operatives as we know it?* [PowerPoint Slides]. MMCC 5200-F2015, Strategic Analyses I, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.
- Côté, D. (2016a). *Foundations of an NCP* [PowerPoint Slides]. MMCC 5300-F2016, Strategic Analyses II, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.
- Côté, D. (2016b). *From an identity crisis to a new co-operative paradigm: convergence, loyalty foundation & co-op identity foundation* [PowerPoint Slides]. MMCC 5300-F2016, Strategic Analyses II, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.
- Daft, R.L. (1999). *Leadership Theory and Practice*. Orlando, Florida: The Dryden Press.
- Davis, P. (2004). *Human Resource Management in Co-operatives: Theory, Process and Practice*. Geneva: ILO Coop Branch. Retrieved from [http://staging.ilo.org/public/libdoc/ilo/2004/104B09\\_593\\_engl.pdf](http://staging.ilo.org/public/libdoc/ilo/2004/104B09_593_engl.pdf).
- Davis, P. and Donaldson, J. (1998). *Co-operative Management. A Philosophy for Business*. New Harmony Press, Cheltenham.
- Definition of real economy. (2017). *Financial Times, Lexicon*. Retrieved from <http://lexicon.ft.com/Term?term=real-economy>.
- DiMaggio, P. J. & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48, 147-160.
- Fairbairn, B. (1994). *The meaning of Rochdale: The Rochdale pioneers and the co-operative principles* (No. 31778). University of Saskatchewan, Centre for the Study of Co-operatives.
- Fullerton, J. (2014). Finance for the Anthropocene. In Webb & Novkovic (Eds.), *Co-operatives in a post-growth era: creating co-operative economics* (Chapter 7). Zed Books Ltd.
- Friedman, M. (1970, September 13). The Social Responsibility of Business Is to Increase Its Profits. *The New York Times Magazine*. Retrieved from <http://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>.
- Fulton, M. and Girard, J-P. (2015). *Demutualization of Co-operatives and Mutuals*. Co-operatives and Mutuals Canada. Retrieved from <http://canada.coop/en/demutualization>.
- Global Alliance for Banking on Values. (2017). *Annual Report 2016*. Retrieved from <http://www.gabv.org/news/2016-annual-report-launches>.
- Government of Canada. (2012). *Co-operatives in Canada in 2012*. Retrieved from [https://www.ic.gc.ca/eic/site/693.nsf/eng/h\\_00135.html#p6-t1](https://www.ic.gc.ca/eic/site/693.nsf/eng/h_00135.html#p6-t1).

## Five critical things every co-operative leader should know

Heath, F.E. (n.d.). Invisible hand. In *Encyclopedia Britannica*. Retrieved from <https://www.britannica.com/topic/invisible-hand>.

International Co-operative Alliance. (n.d.). Co-operative identity, values & principles. Retrieved from <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>.

Max-Neef, M. (2014). The World on a Collision Course and the Need for a New Economy. In Webb & Novkovic (Eds.), *Co-operatives in a post-growth era: creating co-operative economics* (Chapter 1). Zed Books Ltd.

Maxwell, J.C. (2010). *The 21 Irrefutable Laws of Leadership: Follow them and people will follow you*. Nashville, Tennessee: Thompson Nelson.

Murray, C. (2011). *Co-op Survival Rates in British Columbia*. BC-Alberta Social Economy Research Alliance. Retrieved from <https://auspace.athabascau.ca/bitstream/handle/2149/3133/BALTA%20A11%20Report%20-%20BC%20Co-op%20Survival.pdf>

Rafferty, J.P. (n.d.). Anthropocene Epoch. In *Encyclopedia Britannica*. Retrieved from <https://www.britannica.com/science/Anthropocene-Epoch>.

Rees, W.E. (2014). Are Prosperity and Sustainability Compatible? In Webb & Novkovic (Eds.), *Co-operatives in a post-growth era: creating co-operative economics* (Chapter 4). Zed Books Ltd.

Roelants, B., Hyungsik, E., and Terrasi, E. (2016). *Co-operatives and Employment: a Global Report*. Published by International Organisation of Industrial and Service Cooperatives (CICOPA) and Desjardins Group. Retrieved from <http://ica.coop/en/media/library/research-and-reviews/cooperatives-and-employment-global-report>.

Schatz, W. (2015a). Unpublished manuscript. *Module 1 – Assignment 1*. MMCC 5200-F2015 Strategic Analyses I, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.

Schatz, W. (2015b). Unpublished manuscript. *Module 3 – Assignment 3*. MMCC 5200-F2015 Strategic Analyses I, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.

Schatz, W. (2015c). Unpublished manuscript. *Co-operative Equilibrium, Cohesion and Identity: The Co-operators Group Limited*. Final Paper for MMCC 5200-F2015 Strategic Analyses I, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.

Schatz, W. (2016a). Unpublished manuscript. *The Co-operators Group Limited: Co-operative Identity and a New Co-operative Paradigm*. Final Paper for MMCC 5300-F2016, Strategic Analyses II, Instructor: Daniel Côté. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.

Schatz, W. (2016b). Unpublished manuscript. *Frameworks for Co-operative Leadership; Courageous Leadership*. Module 3 – Individual Assignment. MMCC 5301-F2016, Leading and Managing People II, Instructor: Peter Davis. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.

Schatz, W., Dutka, E. & Dykstra, A. (2016). Unpublished manuscript. *Strategic and Transformative Leadership; Co-operative Social Capital Management*. Module 2 – Group Assignment. MMCC 5301-F2016, Leading and Managing People II, Instructor: Peter Davis. Masters of Management, Co-operatives and Credit Unions program, Saint Mary's University, Halifax, Nova Scotia.

Shaw, B. (1988). A Reply to Thomas Mulligan's "Critique of Milton Friedman's Essay 'The Social Responsibility of Business to Increase Its Profits'" *Journal of Business Ethics*, 7(7), 537-543. Retrieved from <http://www.jstor.org.library.smu.ca:2048/stable/25071797>.

Stiglitz, J. (2002). Information and the Change in the Paradigm in Economics. *The American Economic Review*, 92(3), 460-501. Retrieved from <http://www.jstor.org.library.smu.ca:2048/stable/3083351>.

Stringham, R. & Lee, C. (2011). *Co-op Survival Rates in Alberta*. BC-Alberta Social Economy Research Alliance. Retrieved from <https://auspace.athabascau.ca/bitstream/handle/2149/3132/BALTA%20A11%20Report%20-%20Alberta%20Co-op%20Survival.pdf>

United States Census Bureau. (2017). U.S. and World Population Clock. Retrieved from <https://www.census.gov/popclock>.

United States Intelligence Community. (2017, May 11). Worldwide Threat Assessment of the US Intelligence Community. Statement for the Record presented by Daniel R. Coats, Director of National Intelligence before the United States Senate Select Committee on Intelligence. Retrieved from <https://www.dni.gov/files/documents/Newsroom/Testimonies/SSCI%20Unclassified%20SFR%20-%20Final.pdf>.

World Co-operative Monitor. (2016). *Exploring the Co-operative Economy: Report 2016*. International Cooperative Alliance and European Research Institute on Co-operative and Social Enterprises. Retrieved from <http://monitor.coop>.