

## Q: CO-OPERATIVE QUALITY

**Vincenzo Mannino**

Why are co-operatives so often depicted as irresponsible businesses? What does it mean to be a good, true, co-operative, and how can we support high quality, responsible, co-operatives?

As far as companies are concerned, the issue of quality is usually based on the quality of the goods and services produced, which is obviously a determining factor for competitiveness. Subsequent development by adopting a Total Quality Management approach points to the importance of focusing on company quality in all structures and processes and not only specific areas or stages of production. An extensive literature and widespread training have helped to improve companies' knowledge of these issues. However, the brief reflections I will make here do not concern quality in this sense, but focus on the quality of co-operative firms and the quality of the co-operative sector as a whole.

When a negative event occurs in a co-operative, due to mistakes made by its executives, a shadow is drawn on the co-operative sector in general as if everything has gone wrong, just because of a mistake that one of its many members has made. In other contexts, the 'demutualisation' of important co-operatives, through choice or following a crisis, is a traumatic event for the co-operative movement, not only at national level.

The situation is not the same for other types of enterprise. If there is an incident at a joint-stock company or a traditional investor-owned company, nobody questions the entire genus. Clearly when mistakes become very frequent or patently obvious, the debate is re-opened on the need for prevention, by means of correcting or strengthening governance or regulating corporate offences in another way. One black sheep does not make a black flock. Even problems with transformation from one legal form to another should be seen as simple corporate decisions and not as the abandonment of a specific mission (almost a sign of betrayal or failure).

The different attitude shown towards co-operatives raises some questions. It can be attributed, in some cases very clearly, to the attitude of those who craftily take advantage of the situation. However, in many cases, we are dealing with a sincere desire for co-operatives to correspond to their stated intentions and values, specific aims, and special way of operating. We have to ask if such a desire has foundation. The quality (as well as consistency and authenticity) of co-operatives is judged to the



point that frequent references to spurious, instrumental and false co-operatives are made in the media and politics.

I will not go into the historiographical issues of the origins of modern co-operative societies; whether Rochdale was home to the Big Bang of the co-operative movement which led to an expansion which continues to this day, or if and which forerunners anticipated the successful story of the pioneers of Rochdale by laying its foundations. The co-operative of the honest pioneers of Rochdale, which was established 170 years ago, remains true to its legacy of rules and principles which are updated from time to time but remain essentially the same.

The co-operative of the 'honest pioneers' is however that founder member since it is considered to be at the origins of the basic or founding principles of co-operatives. The foundation of this co-operative was a stage dominated by self-regulation by the founder members of an enterprise: the union of members of a co-operative is initially (and then throughout its development) a community of legislators. It involves sharing values and objectives rather than a specific ability (technical skill) to devise rules whose aim is to get it to operate effectively. This is relevant to what we have to say here because it links the idea of the co-operative to a high level of conscience and shared rules. The idea of having a sole director, as in the current Italian set-up, contrasts with this idea of a co-operative.

Moreover, the seven principles of Rochdale contain rules for the management of a co-operative enterprise which reflect its mutual aims (the practice of refunding any surplus, or limited interest on capital) and are still used today. They also contain rules that are the basis of democratic governance.

It should be stressed that some aspects which are either implicit in the principles or explicit in others (voluntary membership, political and religious neutrality) make the Seven Principles of Rochdale not only a document that outlines company policies or guidelines for directors but a true code of ethics ahead of its time. At the same time, we can see that the seven principles constitute, on a general level and for some specific aspects, a precocious statement of social responsibility for co-operatives.

These elements cannot be attributed to an immature, romantic stage in the development of co-operatives. The current version of the co-operative principles, i.e. the Statement on Co-operative Identity (approved by the Congress of the International Co-operative Alliance (ICA), in Manchester in 1995) outlines, develops, and consolidates both the elements regarding ethics and those regarding social responsibility. The discussion which is currently under way at the Alliance to update some of the principles does not modify



the system (principles 3, 5 and 7 on the economic participation of members, education, and training and concern for the community respectively).

As far as the ethical elements are concerned, let's consider one of the two statements that precedes the breakdown of the seven principles on values ('Co-operatives are based on the values of self-help, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others'). With regard to the aspects of social responsibility, the seventh principle springs to mind ('Concern for community. Co-operatives work for the sustainable development of their communities through policies approved by their members').

The elements regarding ethics and social responsibility are not therefore elements which have been gradually acquired over a period of time, whereas both company codes of ethics and CSR belong to more recent decades. As far as co-operatives are concerned, these attributes go back a long way and should be considered a part of the co-operatives' genetic makeup.

Co-operatives present themselves in such a way that we are justified in expecting from them extra quality which is very different from the quality or qualities on which the reputation of other enterprises is based on. Co-operative quality cannot disregard the credibility that derives from compliance with these identifying (and programmatic) principles. This, I should add, is regardless of what has been outlined in positive law (the 'social function' of the co-operatives is discussed in article 45 of the Italian Constitution). The true co-operative, the real co-operative, the good co-operative, is not only one that respects the letter of the law but is one that adopts the spirit of its fundamental principles or, more precisely, adopts the values and motivations that have shaped those principles.

If, on the other hand, we look at co-operative legislation, we can see that the quality of a co-operative can be assessed, documented, and 'measured' by considering its co-operation and mutuality (i.e. to what extent the co-operative operates effectively with its members). This includes the participation of members in the life and management of the enterprise and the desire to overcome the egoism of individual firms seen in terms of integration between co-operatives, the production of positive externalities for the community, and a contribution to promoting what co-operatives have to offer.

In the first half of the last decade, Italian corporate law identified virtuous co-operatives according to the level of mutuality. In the drafting of European Commission services and in sentences of the European Union Court of Justice, considerable importance is given to internal mutuality. The EU Commission's work documents have defined a pure model of



a co-operative as being a co-operative based on total mutuality. Equal importance is given to the participation of members in company life, although in this case the identification of indicators is less clear (participation in meetings and economic participation through subscribed capital are clear indicators, but quality elements prevail in active participation).

The Confcooperative Observatory shows that the co-operatives with the highest level of mutuality and participation are also the ones with the best economic performance. In this respect, we can conclude that the quality of a co-operative society is also reflected in the quality of the joint efforts which that co-operative undertakes. The co-operative works better if it is managed with respect for its characteristics and if its specific potential is exploited.

The same focus on internal mutuality cannot be found in documents of international co-operative movement, where the accent is on democratic governance, the effectiveness of the co-operative as an agent of development, and its characteristics as an enterprise geared towards sustainability.

I will conclude but not complete this series of reflections by indicating a number of issues that deserve to be examined in more detail. A first question concerns which other cultural and value conditions are required so that a high, consistent level of ideal motivations persists in the history of co-operatives and co-operative movements. In some countries with a significant number of co-operatives this has been guaranteed by the fact that they are rooted in the cultures of each country (something that is much more fundamentally important than other related phenomena).

A second question concerns how this quality can be sustained over a period of time, with which public policies and, above all, with which strategies and activities by the co-operative movement organisations (identity training, business training, etc.), other than by maintaining the principle of self-regulation and making full use of the representative bodies and associations also as custodians and suppliers of identity and authenticity.

Another issue concerns how the co-operative movement can be protected from the threat of someone who adopts the legal form of the co-operative without sharing its aims and values and moves in that grey area in which appearances seem to be kept up (it could be argued that the letter of the law is complied with), but where the substance is missing (the spirit of the law is violated).

Finally, we need to ask with what policy can high quality co-operation can be sustained? Today, a European co-operative policy is needed rather than a national one (see letter I).



## References

- Bernardi A., Treu T., Tridico P., (2011), *Lavoro e impresa cooperativa in Italia. Diversità, ruolo economico, relazioni industriali, sfide future*, Firenze: Passigli Editori.
- Bernardi A., (2007), 'The Co-operative Difference. Economic, organizational and policy issues,' 3(2), pp. 11-23.
- Cracogna D., Fici A., Hagen H., eds., (2013), *International Handbook of Cooperative Law*, New York: Springer.
- Birchall J., (2014), *The Governance of Large Co-operative Businesses*, Manchester, UK: Co-operatives UK.
- Webster A., Brown A., Stewart D., Walton J.K., Shaw L., eds., (2012), *The Hidden Alternative: Co-operative Values, Past, Present and Future*, Helsinki: United Nations University Press, pp. 327-346.

