# A Cooperative Solution

*by Riccardo Lotti, Peter Mensing, and Davide Valenti*

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**This self-governing corporate structure protects communities and prospers in a globalizing world.**

Four times a year, as many as a thousand clients of each local branch of Rabobank, a leading Dutch institution and one of the world’s 25 largest banks, assemble to discuss business. They are not typical shareholders who have convened to hear speeches and garner information about profits. They are citizens from the local municipality — lawyers, accountants, contractors, shopkeepers, schoolteachers — with equal voting power in the governance system of that branch and a keen interest in the daily workings of the bank. As members of their local Rabobank cooperative, they collectively affect local decision making. And because each local Rabobank board takes part in decision making at the central bank’s governance council, they have influence at the highest organizational level as well.

“That’s thousands of your clients coming to you,” says Bert Heemskerk, chairman of Rabobank’s executive board, with evident enthusiasm. “These members discuss whether they think the bank did well or not, and they have an interest in voting on the issues raised at each local board.”

The members of the bank took part recently, for example, in voting on whether to merge some of its branches. That is the kind of crucial decision usually made by top management. But at Rabobank, it was the focus of long debate among all the members. It took Rabobank’s central organization nine months, many personal discussions, and two general assemblies to build consensus throughout its vast constituency on the consolidation issue. By the end of 2006, the number of Rabobank member banks will drop from 400 to 200, a move seen as crucial to retaining a competitive edge.

At first glance, Rabobank’s lengthy and diffuse decision-making process may seem complicated, unwieldy, perhaps even preposterous. But this all-inclusive operating style is typical of businesses with a cooperative structure — of which Rabobank is a forward-thinking, massively successful example. Today, Rabobank is among the largest financial-services providers, with d475 billion (about $575 billion) in assets, 9 million customers, and operations in 37 countries. Rabobank has a consistent triple-A rating from the top rating agencies (Moody’s, Standard & Poor’s, and DBRS), rare among financial-services institutions. Mr. Heemskerk is clearly proud of the member-by-member engagement policies that enable such economic feats. It leads him to boast that “We are Rabo, and Rabo is for us.”

That phrase is echoed about 1,000 kilometers south in Florence, Italy, where a major retail advertising campaign announces “La coop sei tu” (“Co-op is you”). The slogan, put forth throughout Italy by a consortium of regional retail cooperatives under the brand name COOP, has become a national catchphrase — one that is backed up by the fact that in Tuscany alone, cooperatives in general count 1 million members out of a population of 2.5 million.

The membership-based governance structure of a cooperative is the feature that distinguishes it from an ordinary corporation — and the feature that lies at the core of its success. The organization is run by its members: one person, one vote. Members elect representatives, who are directly accountable to the members. Depending on the internal structure and operations of a particular cooperative, members may also participate actively in making decisions and setting policy. Some cooperatives admit individuals, typically either employees or customers, as members. Other cooperatives are composed of smaller businesses and organizations. Rabobank and COOP are examples of both; they are consortia of local cooperatives that in turn have individual members.

Although the companies that make up a co-op may see profits, in most countries, the co-op's charter requires that profits be put toward the co-op's promotion or invested in its growth and functioning, not taken as dividends. In general, co-ops are more financially successful than observers may realize, but their real value comes from their ability to keep alive the "social contract" of communities. They are set up to ensure the continued viability of jobs, promote entrepreneurship, and improve quality of life — without sacrificing competitiveness. Co-ops could be an even more powerful economic force for communities and for economic regions during the coming years.

Some of the best-known businesses around the world are co-ops. They include consumer-owned co-ops such as REI (the American purveyor of outdoor clothing and supplies), and Coop Nordic, a popular retail cooperative in Scandinavia. Employee-based co-ops exist in utilities, fisheries, and manufacturing, and include the Mondragon Corporacion Cooperativa, the largest corporation in Spain's Basque region and a model of innovative management and community development. There are a large number of banks in addition to Rabo (the Raiffeisen Bank, founded in Austria, is a mainstay of the economy in Central and Eastern Europe); agricultural co-ops such as Campina and Arla in Europe and the Dairy Farmers of America; health-care cooperatives that augment government- or employer-supported medical services; cooperatives owned by other companies, such as the French wholesaler E. Leclerc; financial cooperatives that support economic development in emerging countries; and food-buying cooperatives such as the Han groups of Japan, where nearly one in five households contains a co-op member.

In all these cases, members are either invited to buy or permitted to own shares in the company and thereafter have a small stake in its health and viability. The most common benefit is not dividends but an ongoing relationship that includes discounts or a voice in the direction of the enterprise, or, for employee shareholders, higher wages than might otherwise be considered feasible. This creates a more direct line of identification and benefit between owners, investors, and community members than is typical in a conventional company.

"In most countries, the law gives the shareholder the power of hiring and firing the people who run the company," says Arie de Geus, former head of Royal Dutch/Shell scenario planning and author of *The Living Company* (Harvard Business School Press, 1997). "These powers were fine in the past, as long as the shareholder had a common purpose with the people who ran the company. But nowadays, in nine out of 10 cases the primary shareholders are managers of other corporate entities, with purposes and goals of their own. By their nature, the goals and targets of the shareholders are short-term and money-based, whereas the goals and targets of the company, in today's world, have to be people-based and long-term."

**Co-op Fever**

The co-op model has been intricately woven into the culture of many countries, particularly in Europe, since the late 1800s. But co-op fever has recently intensified. Retail cooperatives like the COOP group, financial cooperatives like Rabobank, and an increasing number of agricultural, manufacturing, and service cooperatives have adapted to global competition and grown in the past few years.

Although co-ops tend to operate with little fanfare and are often unrecognized by the financial press, they account for 83 percent of Dutch agricultural production, 55 percent of agricultural production in Italy, more than 50 percent of banking services in France, and 21 percent of Spanish health care (according to the Commission of the European Communities). In continental Europe, these companies employ approximately 4.8 million people, 20 percent more than the total work force of large corporations in the same region. The largest cooperatives boast sales that rival those of any business. In 2004, sales figures included d9 billion ($11 billion) each for Coop and Coop Norden (consumer cooperatives in Switzerland and Scandinavia), more than d30 billion ($36 billion) each for Edeka and ITM Enterprises (retailer co-ops in Germany and France, respectively) and d40 billion ($48.5 billion) for the German retailer REWE Group.

Cooperatives are often assumed to be merely local affiliations of small and midsized companies, and therefore limited in scope and reach. But their deep roots in their countries of origin — as well as their surprising pervasiveness and stability — are exactly what puts cooperatives in a strong position in the new global economy. Through their highly participative governance models (involving both members and employees in making decisions), the cooperative system is particularly well suited to combining entrepreneurial and social objectives. Because it encourages internal checks and balances and general transparency, cooperative structure also makes it easier to avoid the ethical and legal lapses that have brought down the management of many investor-owned companies.

As an example of economic vitality, consider the consumer co-ops of Italy. The Italian cooperative movement, with 5 million members, is one of the largest in the world. It includes a widespread network of small cooperatives and the nine large regional members of the COOP group: Novacoop (in northern Italy), Coop Lombardia, Coop Liguria, Coop Consumatori Nordest, Coop Estense, Coop Adriatica, Unicoop Firenze, Unicoop Tirreno, and Coop Centro Italia (near Rome). Together, the nine members of COOP have annual sales of more than d11 billion (about $13 billion) and a reputation for balancing global reach in the products they stock with the local procurement of the highest-quality Italian food and other consumer goods.

During the last few years, Unicoop Firenze faced unprecedented competition from retailers entering Italy, including several European giants: Carrefour, Panorama, Esselunga, and E. Leclerc. “These entrants triggered a full-blown competition over prices and distribution,” says Maura Latini, channel director of Unicoop Firenze. “Luckily, we had prepared for this over the previous years by competing against each other.” Before this competition set in, COOP’s management had moved to create internal competition between the chain’s supermarkets and “hypermarkets” (larger outlets that combine features of supermarkets, department stores, and specialty stores, introduced in Europe to compete with the influx of Wal-Mart and similar retailers). This helped COOP establish price leadership in products across the board and ensure better food quality. “Management had decided to introduce this mechanism so that our employees would get used to competition before we had to face it directly,” adds Ms. Latini.

More recently, COOP’s member companies streamlined and reorganized the way they manage their core categories; they changed their store formats to make them more efficient and convenient; and they greatly expanded their own COOP-branded private-label portfolio.

At the regional level, the larger Italian cooperatives are focusing on the efficiency of store operations and on enhancing loyalty services. They are also evolving their financial-service offerings to give their members cost-effective alternatives to traditional banks. Some leading Italian consumer cooperatives have introduced a more explicitly democratic process in which employees and a large group of representative members are allowed to participate in strategic decision making.

Thanks to this broad effort, Italian co-ops have achieved 15 percent growth in a nearly stagnating economy during the last three years. They maintain prices about 5 percent lower than those in most supermarkets, and 2 to 3 percent lower than those of their fiercest competitors. Group sales have grown an average of 5 percent annually, the employment growth rate has been 5.1 percent, and the membership has risen 7.1 percent. Italian cooperatives are market leaders, with a 17 percent market share for grocery retail, and are determined to remain powerful competitors against international retailers who operate in Italy.

**Well-Being and Wealth**

Their success in marketing explains why cooperatives are viable. But their role in bridging social and economic interests could make them influential. This role has been part of the cooperative governance structure since it was invented around 1800. The founder of the movement, Robert Owen, headed a group of owners of a cotton mill in New Lanark, Scotland (which his father-in-law had sold them). His objective was to create well-being and wealth by spreading the profits beyond just the capital-holders. He wanted to give employees a share. He reorganized the mills, opened the first cooperative store, put some profits back into the community, and established the first infant school (for children age 5 to 7) in Great Britain. Following this example and that of the Rochdale Pioneers (a group of English weavers who organized a co-op in 1844), the movement developed throughout the 19th century. These relatively democratic enterprises proved to be influential innovators of participative management practice, pioneering such widely accepted techniques as self-managing work teams and value chain collaboration.

Since the late 1990s, cooperatives have been experimenting with building more global reach. Growth — on both national and international scales — is the key for production cooperatives (such as dairy co-ops) because they need to increase their production as well as the scale of their logistics operations to compete with major industry players. Growth is also a major challenge for service cooperatives that have to play an increasingly difficult market-share game against leading professional companies. One alliance, Coop Europe, has been deliberately set up to encourage co-ops to join forces to negotiate with manufacturers, provide services, defend product quality, and provide an alternative to global chains such as Wal-Mart and Carrefour.

Success, in Europe or elsewhere, is not assured. Cooperatives have faltered at times. This happened most recently in the 1990s with Great Britain's famous "building societies," cooperative banks that had pioneered low-interest mortgages for their working-class members. In a series of publicly criticized moves, the boards of some major cooperatives rewrote the governance rules to make directors less accountable, sold the companies to more conventional businesses (for example, Lloyds Bank took over the Cheltenham & Gloucester Building Society), and allowed a few directors to pocket disproportionately large gains. Observers concluded that cooperatives, like many idealistic experiments, would simply not stand up against conventional business practice; they would need special legal protections to survive.

But the examples of Rabobank, the COOP group, the REWE Group, Migros, and many others show that special protections generally aren't necessary. To be sure, the social benefits of cooperatives — such as their ability to help counter a stagnating labor market — provide a rationale for political support. But if cooperatives are being held back legally within Europe, it's by a barrier that applies to all types of companies in the European Union: the restrictions that still make it difficult for businesses to transcend national boundaries.

Recently, the Commission of the European Communities passed a Statute for a European Cooperative Society (SCE), which will take effect this year. This SCE will, in the commission's own words, "allow cooperatives to operate throughout the EU with a single legal personality and set of rules, in the same way as a Statute for a European Company (SE) will do for public companies limited by shares." The resulting legal framework should prove instrumental in allowing cooperatives to operate freely across Europe, and to compete more effectively with other multinational enterprises.

**Consensual Competitiveness**
How well can cooperatives compete with fiercely entrepreneurial companies emerging in a globalizing world? That depends on how well the distinctive qualities of cooperative management succeed in the future. To many observers, cooperatives appear to be burdened with features that are liabilities in conventional business models. But cooperative leaders have learned, over the years, how to translate them into assets. For instance:

• **Consensual decision making.** Cooperatives typically cannot move without taking the time and effort to bring all participants to the table. As Arie de Geus says, “This involves more brains and more time up front — and therefore would seem to take an awful lot longer. But everybody who has worked with this system will tell you that the gain made in the implementation, both in speed and quality, outweighs by far the decisions made in conventional companies.”

Bert Heemskerk has found the same to be true during his tenure as chief executive at Rabobank. “Each time, you have to make your proposition extremely clear. You have to show that it fits Rabo’s mission and identity. But once you convince the members, the commitment you get is so strong, implementation is much quicker, and the solutions are better received in the market,” he says. Mr. Heemskerk also agrees that he gets better and more varied input than he would get at a traditional corporation; on top of that, the process of clarification forces the central organization to be sharper and more self-critical in the proposals it makes. Rabobank’s zeal about this process is proven by the fact that it is seeking to expand its membership even further.

• **Better communication.** Maura Latini of the COOP group in Italy feels it is essential that co-ops maintain “communication as an internal element. We need to be as strongly linked as possible to the resources that are the reason for the co-op’s existence. These resources are its members and its employees.” Having learned to communicate more effectively, cooperative leaders find it easier to draw on the skills, talent, and enthusiasm of people throughout the enterprise; they enjoy an enviable degree of customer loyalty as well.

• **Leadership development in the company and community.** Ms. Latini began her career as a cashier; her climb from entry level to executive leadership is characteristic of co-op culture. Since the days of Robert Owen’s infant schools, cooperatives have had a built-in incentive to focus on developing leadership and entrepreneurial skills, within their organizational boundaries and at large in their communities. This in turn gives them a broader base of skilled people to draw upon. For example, as writer Cole R. Gustafson has pointed out, “Rabobank has the commitment to hiring local management and staff when it establishes operations in a new region, and profits earned reside in that area and are not siphoned off overseas.”

• **Long-range planning and experimentation.** “Being a cooperative,” says Rabobank’s Mr. Heemskerk, “you can take your time. There’s not such an immediate pressure of quarterly results. Obviously, we have to perform well financially and remain solvent. But we don’t feel the pressure of showing a 20 percent return this year. If we have 10 to 12 percent, it’s acceptable, as well. And invest, invest, invest, invest.”

• **Openness to learning best practices.** By its very nature, co-op culture is hospitable to learning exchanges. Maura Latini visited Norway to see its “co-op sales points” and was inspired by discovering that “all aspects relating to the environment, energy saving, and recovery in actual ecological terms are very advanced with respect to Italy.” She feels there will be more opportunities for collaboration in the future. “If two different realities are compared,” she says, “there’s always a lesson to be learned.”

**• The social dimension.** The "cooperative advantage," as former International Cooperative Alliance Director-General Karl-Johan Fogelstrom calls it, is particularly effective in aiding emerging economies. Co-ops provide a framework for increasing the economic competitiveness of a territory. They provide opportunities (and pragmatic examples) that help the disadvantaged improve their living and working conditions. And they help build and promote a business-savvy society. "In this sense," according to a 2004 white paper from the Commission of the European Communities, "cooperatives act as schools of entrepreneurship and management for those who might not otherwise have access to positions of responsibility."

How influential will cooperatives become, and how far will they go? This depends in part on how well the cooperative leaders continue to innovate and compete. The rewards include financial viability — and another kind of personal satisfaction as well.

"I still remember myself as a boy of 8 years old," says Bert Heemskerk. "My father started a small shipping business and a gold trade business, and his first loan was in 1918. From my brother, I got my father's savings and loan book. It was from the local Rabobank. Anybody in the Netherlands who started their own small business back then was doing it with Rabobank. I feel I've gone back to my roots."

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