

Bringing Rationality to Organisations: The Implications for Co-operative and Mutual Enterprises

Edgar Parnell

Five years ago I commenced a personal project to review a lifetime of work with co-operatives and mutuals, encompassing many different forms and within many countries. My initial object was to seek to discover what lessons my experiences could provide in terms of identifying and removing the main impediments to the development and growth of co-operatives and mutuals; this with a view to passing on this information to current and future generations. However, as my analysis progressed and once I began to scrutinise the wide range of other organisations¹ that I had been involved with during the course of my career, I came to realise that many of the barriers to progress also hampered the effectiveness of all manner of organisations. In this short paper I share some of the most significant findings of my study, especially the implications of my conclusions for co-operatives and mutuals.

Understanding Organisations

All too often our approach to the study of organisations is unstructured, often reliant upon folklore and without the basis of either a proper system of categorisation or a widely agreed terminology². Presently there exists a widespread acceptance of many misconceptions and confused thinking about organisations. Much of the research into organisations follows an agenda set by those in control of the people who now run our organisations and they often have no incentive to question existing theory and practice or to foster the fundamental change that is in many cases plainly needed. Our current approach to the study of organisations can perhaps be likened to the position of the science and practice of medicine at a time prior to the advances that were made in this field from the nineteenth century onwards.

An organisation is formed when an individual or group of people fix upon a purpose and are organised to achieve it. From the simplest group through to the most complex conglomerate the same elements form the basis of every form of human organisation, these are: 'the task'³, 'the team (or teams)' and 'the individuals' that make up the teams. The method of organisation forms the framework within which the teams operate and the different teams inter-relate.

- **Organisations are teams**

The arrangement of people into teams that have the responsibility for completing specific elements of the overall task forms the basis of the structure of an organisation. For example, in sizeable organisations this is achieved by setting up different departments and by operating branches. In the military traditionally teams are grouped into a hierarchy, which in an army will include groupings of teams ranging from a platoon to a regiment. In many organisations it is common to have both teams that work to deliver the main function of the organisation and teams of specialists who provide support to the main thrust of the organisation; for example, accounting, human resources management and legal services.

- **Organisations are people**

Teams comprise individuals and it is individuals that need to be motivated⁴ to contribute their labour, knowledge and creativity, both to the activity of the team and to the achievement of the overarching purpose of the organisation. If an organisation is to optimise its capacity to achieve its purpose every individual within the organisation must be clear about both the purpose and the function of the organisation, as well as being fully committed to the specific objectives of their team. People are much more likely to be committed to an organisation when they help to create its plans; therefore, active

participation in the planning process, at least at the team level, is central to the success of any organisation.

- **Organisations are tools**

People that wish to form organisations must either choose from the available existing models of organisation or seek to design a new model to meet their needs. Most will choose an existing model, sometimes adapting it to their specific needs. The availability of tried and tested models helps to shorten the process of establishing an organisation and often reduces the risk of failure. However, it is important to recognise that organisations are tools that are used to achieve specific purposes, and unless we choose the right model of organisation for any given purpose then we reduce our chances of successfully achieving our purpose.

Since the beginning of time human beings have depended upon their capacity to develop and use tools for their progression as a species. The development of technology, in terms of developing all manner of tools, during the last few centuries has been moving at an incredible pace. However, during the same period we seem to have made very little progress in terms of developing perhaps the most vital tools of all — human organisations.

The true test of the value of any tool is whether or not it does its intended job, that is to say “is it fit for purpose?” The same therefore applies to organisations — does it carry out its intended function? It is essential that we fully understand the function of our organisations, and that we select a model of organisation that is designed specifically to achieve our purposes.

The Malfunction of Organisations

In many cases our organisations are failing to carry out their proper functions, which results in them not achieving their intended purposes, also in the benefits from their activities being allocated to persons that are not entitled to them. Organisational malfunction affects all models, forms and types of organisation. Organisations often fail to achieve their purposes and to maximise their effectiveness; this is often simply because the people involved either do not fully understand the function of their organisation.

The causes of malfunction of organisations often include:

- The absence of a clearly understood function for their organisation.
- The failure to clearly spell-out the organisation’s purpose, which needs to be expressed in terms of specific outcomes.
- An inadequate system of oversight.
- Allowing the power to mete out patronage to be exercised by those charged with running the organisation, instead of this power being retained by the owners of the organisation.
- The choice of an inappropriate model or form of organisation.
- The persons controlling the organisation either do not fully understand, or choose not to adhere to, the essentials of the proper model of organisation.

Organisational failure not only impacts upon the wellbeing of those owning the organisations but it can also seriously damage the international competitiveness of national economies, undermine efforts to reduce the degradation of the environment, inhibit the fairer distribution of wealth, and also the realisation of stability — based upon continuing economic and social development.

Co-operative and mutual enterprises are all too often run on the same basis as shareholder companies, seeking profit maximisation. And in many case, being run primarily for the benefit of

their top managers and/or cliques of members⁵, whereas, the function of this form of enterprise should be to intervene within the marketplace in the best interest of all of their members⁶.

Co-operative and Mutual Enterprises

International co-operative leaders began to talk about 'co-operative principles' in the nineteenth century, which were in reality a combination of essential characteristics and proven practices. It was not until 2005 that Dr Ian Macpherson introduced us to the idea of 'Co-operative Identity'. However, we now also need more than this — we need a clear-cut model of organisation.

Co-operatives and mutuals, in common with many other peoples' organisations, invariably cease to serve their true purposes once they become institutionalised and professionalised. In response, we need to make use of a very clear model of enterprise that can both clarify the strategic purpose and guide the day-to-day decision making within the enterprise.

Member-controlled enterprises (MCEs) encompass: credit unions, building societies, friendly societies, community benefit societies, insurance mutuals, social clubs, co-operatives and mutuals of all kinds. This includes: co-operatives of consumers, farmers & growers, communities, workers, artists, artisans, professionals, social co-operatives, and many other forms and types of MCEs. The function (strategic purpose) of a member-controlled enterprise is to intervene in the marketplace in the best interest of its members. The purpose of a member-controlled enterprise needs to be set out in terms of the specific outcomes, which need to reflect what the membership wants their enterprise to deliver. These outcomes will not only include economic benefits ('a better deal') but also honest dealing, integrity, fairness, equivalence, autonomy ('a better organisation') and continuity ('a better future').

People involved in member-controlled enterprises need to understand that the essential task of their enterprise is to deliver what their members really want (ie a better deal, a better organisation and a better future); and, that their enterprise has a quite separate and distinct function from that of a movement for social change.

The Categorisation of Models of Enterprise

We can identify a particular class of organisation, which we can categorise as 'enterprises' because they are entirely sustained by their activities within a market place. It can be argued that all forms of organisation operate within the 'market' because they need to pay market prices for the resources that they require, including land, labour and capital. Also, some of their services may be sold at prices determined by the 'market'. However, we need to make the distinction between those organisations that are not solely dependent upon the 'market' for their revenue and those that do not. For example governmental organisations and charities, that can rely upon income that can come from taxation, grants or donations, which are therefore not dependent upon the market for the continuity of their existence.

Every enterprise model should provide a complete and integrated system that is well understood by all those involved and which guides decision-making throughout the enterprise. Models of enterprise are designed to meet the different purposes of those setting-up the enterprise. Whatever the purpose of an enterprise it is vital that those involved both choose the correct model to achieve their purpose and fully understand the essentials of the chosen model. Additionally, they need to implement the practices and systems required to sustain the model. The member-controlled model of enterprise provides a framework that guides decision-making throughout the enterprise, sustains those practices that are essential for success and provides the basis for rejuvenation and renewal.

The model required for member-controlled enterprises is one that can ensure that the enterprise:

- Remains fully committed to its purpose.
- Acts in the best interests of its members.
- Acts with integrity.
- Treats all members equally.
- Remains autonomous.
- Ensures sustainability and continuity.

Alternative Models of Enterprise

The main forms of enterprise are categorised in a diagram, which follows in the appendix. The purpose of this diagram is to help those involved with member-controlled enterprises (MCEs), of all forms and types, to better understand this unique form of enterprise; also, to help leaders, ordinary members, employees and the general public, to understand the true nature of such enterprises. The diagram is not intended to provide a complete description of the member-controlled enterprise model or to describe all of the many different forms and types of member-controlled enterprises (MCEs). However, the diagram can help to identify the most important differences between this model and the alternative models of enterprise. Clearly a more complete understanding of the MCE model requires additional explanations. In particular, it needs to be understood that their function (strategic purpose) is to intervene within a marketplace in the best interest of their members, and that it is essential that they be run by and for their members.

The diagram does not seek to offer any form of judgment about any of the alternative models of enterprise. In particular, it should be understood that in many situations the conditions may not be pre-existent for the development of a fully-fledged member-controlled enterprise; this is commonly because the calibre of members' leaders required have not yet been developed. In such cases a 'patron/trustee' model could be required, which, can be regarded as a transitional form of organisation until such time as the essential member leaders emerge. Nevertheless, we should also realise that enterprises run by patrons/trustees can undermine the engagement and ownership of the communities that are organised in order to respond to the community's problems.

It is also to be understood that the diagram, in its current form, may not take full account of national, legal and cultural differences. In such cases it can be adapted to conditions, however, care needs to be taken not to over-complicate the diagram, as otherwise it may not achieve its purpose. The following matters may also cause people to be confused about the functions of different forms of enterprise:

- **Charitable status**
MCEs are clearly not intended to be run as charities, for they are based upon self-help and mutual action. However, it is understandable for members' leaders to look at ways of getting any benefits that may arise from securing charitable status, such as tax-breaks, grants and soft loans. Nevertheless, members of MCEs should not lose sight of the fact that they are not in fact running a charity, which is intended to be run by one group of people for the benefit of others and not for their own benefit.
- **Legal structures**
When considering the available options for incorporation, both in cases of first registration or reorganisation, member-leaders need to consider the longer-term needs of their enterprise, rather than be pushed down the route of expediency. In particular, in an effort to secure finance, especially any grants or soft loans that may be available, they should

not permit their enterprise to be led towards a form of organisation which is unsuitable in terms of achieving their true purpose; for example, by seeking charitable status if this is not what they really need; The problem for many new or budding MCEs is that the law generally lags behind the current needs of enterprises, which can often mean that it impedes their proper operation. It is important to understand that although some forms of member-controlled enterprise are only permitted to register using specific legislation, in other cases the founders of the enterprise may choose from various options when incorporating their enterprise. For example, in the United Kingdom credit unions may only be registered using the Credit Unions Act, whereas many co-operatives may currently choose to register using either the Industrial & Provident Societies Acts or the Companies Acts, (which includes registering as a conventional company, a community interest company, or a company limited by guarantee).

- **Subsidiaries**

Subsidiary companies may be run by MCEs, and if such subsidiaries directly intervene in a marketplace in the best interests of their members then such subsidiaries can become a valid extension of the MCEs that own them. If they are simply a means of raising revenue, then they are in reality just profit-making enterprises. When charities operate subsidiaries with the purpose of raising revenue these too are profit-making ventures, which will be treated by the tax authorities in the same way as any other business; the only difference being that such subsidiary companies owned by charities are usually permitted to donate a sum equal to their profits to the charity.

The Author

Edgar Parnell has spent six decades working in and with member-controlled enterprises, in more than forty different countries, including as a Chief Executive of the Plunkett Foundation. Previous appointments include: UN/ILO adviser in India, manager for the Fund for the Research and Development of Africa, adviser on co-operative management in Jamaica, senior manager and consultant for the CWS (now the Co-operative Group) in the UK, business consultant for Clarks Ltd., general manager of the Botswana Co-operative Development Trust, as well as holding senior management posts in several other UK-based co-operatives. He has served as a member of the General Assembly of the International Co-operative Alliance, as co-chairman of the EU Committee for the Development of the Rural Economy of Poland, on the Council of the Federation of Agricultural Co-operatives (UK), chairman of the UK national Co-operative Development Agency Education and Training Committee, and on various COGECA (the EU federation of agricultural co-operatives) working parties. He is the author of many publications about co-operatives and related topics.

Notes

- 1 These activities have encompassed work within the UK and internationally, undertaken within a myriad of different organisations, ranging from the micro to the mega. This experience has been gathered in more than forty different countries in a wide range of businesses, charities and non-governmental organisations, governmental institutions at the local, national, regional and international levels. At the same time, this practical work has been supplemented by a continuous study of the literature covering the field. Simultaneously, the author has observed and participated in the machinations of significant social change in a range of different situations. In particular, the growth of consumerism in post-war Britain, post-colonial development in Africa, India and the Caribbean, and the fall of communism in central and eastern Europe, especially in Poland and Russia.
- 2 For example, it is common to find that critical concepts such as a 'model of organisation' are confused with general concepts, such as that of 'social enterprise'. Also, words such as 'profit', which is often used when what is really meant is 'margin', and when the term 'business' is used to describe 'not-for-profit' enterprises.

- 3 The overarching 'task' is to achieve the strategic purpose and agreed outcomes set by those controlling the organisation.
- 4 It is essential to utilise the critical motivators within organisations, these may be summarised as the '3 Rs' — respect, recognition and reward (in that order). It is equally essential to rid the organisation of the most common de-motivators, which are: lack of direction (being unaware of the purpose and function of the organisation) unfairness, cynicism and hypocrisy.
- 5 See: 'For Love and Money' Governance and Social Enterprise, A Report by Roger Spear, Chris Cornforth and Mike Aitken, Open University, Milton Keynes, UK, December 2007.
- 6 For more information please see the free download: Organization for Member-Controlled Enterprises available at: <http://s.co-op/1be4d>

Appendix - Alternative Models of Enterprise

