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The Changing Landscape of Co-operatives in North America

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The co-operative landscape of North America has undergone major change in the past 25 years. The agricultural sector has been hit hard as many of the largest co-ops in this sector have declared bankruptcy or have converted to investor-owned firms (IOFs). At the same time, however, there has been a growth, primarily in the United States, in the so-called new generation co-operatives (NGCs) that are highly focused on agricultural commodity processing and that have a very different ownership structure. The credit union sector, which to date has experienced increased membership and profitability, has been transformed through consolidation. The traditional co-operative retail sector in much of North America has struggled and in some cases disappeared, with the exception of western Canada where it has flourished since falling upon hard times in the early 1980s, and the Canadian far north. Meanwhile, smaller retail co-operatives specializing in organic/health food and fair trade products have realized significant growth and success in many parts of the United States and Canada. Other consumer co-operatives, such as those involved in the provision of recreational and outdoor goods, have experienced a substantial increase in membership. Utility co-operatives in the United States and Canada, historically very successful organizations, have faced growing uncertainty as governments seek to deregulate the energy and telecommunications sectors. The housing co-operative sector continues to be an integral part of social housing strategies in both Canada and the United States; low-income urban dwellers and students are often the primary members of these co-operatives. The worker co-operative sector is still fledgling in most parts of North America, with the exception of Quebec where government support has enabled this sector to develop and grow.

These changes to the co-operative landscape in Canada and the United States are the result of and a reaction to globalization processes that are at work across the spectrum of the economy and society. Technological change (such as the development of genetically modified organisms and information technology), increased corporate concentration, shifting consumer demands, and market deregulation represent key underlying factors driving the changes observed in co-operatives.

These factors alone, however, are not sufficient to explain the vast differences in the response that co-operatives have had to external forces that are in some ways fairly common across sectors and geographic areas. In addition, consideration has to be given to forces internal to the co-operative. Building on the work of Fairbairn (2003), co-operative success or failure is linked to three concepts – economic linkage, transparency and cognition. As Fairbairn argues, a co-operative will only be successful if its members trust it to be an effective agent for achieving their interests and those of other members. Economic linkage is about ensuring that members benefit from the activities of the co-op, while transparency is about making it clear that members are served. Cognition – the third concept – is about how co-ops change in response to globalization processes, as well as other forces that affect them and their members. Effective cognition requires that co-ops have a clear, well understood and shared identity and that this identity is routinely and effectively revisited, discussed and revised as circumstances change.

The purpose of this paper is to provide an overview of the changes that have occurred in North American co-operatives over the last 25 years, and to link these changes to globalization processes. Given the large array of sectors in which co-operatives operate, this overview will necessarily only capture the key elements of the external pressures and responses. To understand the impact of the internal forces that have also affected co-operatives, a more in-depth study of agricultural co-operatives will be undertaken. The agricultural sector is chosen for this examination because of the dramatic failures that have occurred in this area, failures that can be better understood through an examination of linkage, transparency and cognition.

The next section of the paper examines the changes that have occurred in a number of key co-operative sectors – agricultural co-operatives, retail co-operatives, credit unions, worker co-operatives, and housing co-operatives. The section following then examines the reasons for the failure of a number of the large agricultural co-operatives. The paper concludes with a discussion and summary.

The Changing Landscape of Co-operatives: A Sectoral Perspective

The purpose of this section is to provide an overview of the changes that have occurred to co-operatives in a number of sectors of the United States and Canada’s economy. The overview is not designed to be either systematic or exhaustive, but rather to provide a flavour of the types of changes that are occurring and the factors driving these changes.

Agricultural Co-operatives

Co-operatives have long played – and continue to play – an important role in US agriculture. As figure 1 illustrates, co-operative organizations accounted for between 25 and 30 percent of total farm marketing and supply expenditures in the US during the latter half of the 1990s and the early part of this century. Historically, the share of co-operative involvement in marketing and supply increased more or less continuously from 1951 until the mid-late 1970s. Since then, the supply share has exhibited no major trends, although it has fluctuated considerably. The marketing share declined quite dramatically in the early 1980s; it then moved sharply upward until the mid-late 1990s when it began to slide once again. This reduction reflects a number of factors, including a declining number of farmers who might potentially join co-ops, but also the economic restructuring in the agricultural sector.

In Canada, co-operatives' market share has fallen dramatically over the period 1986 to 2003 in a number of sectors, most notably: dairy (61% to 39%); grains and oilseeds (70% to 22%); fruit and vegetables (15% to 8%), fertilizer and chemicals (31% to 21%), feed (26% to 14%) and seeds (23% to 6%). Only the honey and maple sector and the livestock sector have seen any maintenance or augmentation of market share (Co-operative Secretariat 2006).

These market share numbers mask a major trend, namely the consolidation of agricultural co-operatives. Since the early 1970s, the number of cooperatives in the US and Canada has steadily declined (USDA 1998). In 1986, there were 5,369 agricultural co-ops representing 4.6 million members in the United States (USDA 1996); by 1995, the number of co-ops had declined to 4,006, representing only 3.8 million members. In Canada, total membership has fallen from 537,000 to 390,000. Interestingly, the number of incorporated agricultural co-operatives has increased from 955 in 1986 to 1,331 in 2002 (Profile of Canadian Agricultural Co-operatives).

This decline in co-operative numbers has occurred in large part because of the economic restructuring of the agricultural sector (Merrett, et al.). This restructuring has included the introduction of genetically modified foods which has changed production methods and altered consumer attitudes towards food (Boehlje), farm consolidation which has resulted in increasingly commercialized farming operations and an increasingly diverse farm population, and new trade regimes that have opened up markets that were traditionally separated (Rural Business – Cooperative Service). Agri-business firms have responded to these changes with mergers and acquisitions, thus creating increasingly concentrated industries (MacDonald). In response to this restructuring and intensification of market forces, a number of co-ops have merged. This strategy is exemplified in the US by the 1998 union between Cenex and Harvest States (Cenex Harvest States 2003) and in Canada by the 1998 merger of Alberta Wheat Pool and Manitoba Pool Elevators to form Agricore (Agricore United).

The changes affecting agricultural co-operatives go well beyond consolidation. Since 2000, a number of the largest and most prominent agricultural co-operatives in western Canada and the United States battled bankruptcy or ceased operations. In the United States, Tri Valley Growers, AgWay, and Farmland filed for Chapter 11 bankruptcy protection, while the Rice Growers Association ceased operations (Sexton and Hariyoga 2004; Anderson and Henehan 2002; Fulton and Gibbings 2004; Keeling 2004). In Canada, Montreal dairy processor and cheese producer Saputo Inc. bought out Dairyworld Foods in February 2001 (Saputo). In November 2001, Agricore merged with United Grain Growers (a co-operative that had demutualized in the late 1980s) to form Agricore United (Agricore United); in participating in this merger, Agricore ceased to be a co-operative. Saskatchewan Wheat Pool, for a long time the largest agricultural co-operative and one of the most dominant agri-business firms in Canada, demutualized in early 2005. This move followed on the heels of a $407 million debt restructuring in January 2003, which was the result of a five-fold increase in long-term debt over the period 1996–1999, a significant decrease in its market share and consecutive multi-million dollar net losses (Lang and Fulton). A more in-depth examination of a number of these co-operatives will be provided in a later section.

It should be noted that not all the large agricultural co-operatives have been unsuccessful. In the US, Cenex-Harvest States, Land O'Lakes, and Dairy Farmers of America (DFA) are examples of very large agricultural co-operatives that have remained financially strong and, in the case of DFA, grown substantially over the last 20 years. In Canada, Agropur – a large dairy co-operative– has been very successful, as has Co-op Federée, a large supply co-operative; both co-ops operate out of Québec.

Another important element of the restructuring of agricultural co-operatives, particularly in the United States, was the dramatic increase in the number of so-called New Generation

Cooperatives (NGCs) and related closed-membership farmer-owned enterprises such as Limited Liability Companies (LLCs). These enterprises are largely focused on the processing of agricultural commodities such as sugar beets into sugar, corn into ethanol, or durum wheat into pasta. Investment in an NGC or LLC can lead to increases in on-farm incomes while creating local nonfarm jobs. The success and popularity of NGCs/LLCs is shown in the increase from fewer than a dozen NGCs in the early 1980s to an estimated 147 operational NGCs or LLCs in 2003, with another 100 in development. Of these, only about a dozen are in Canada (Merrett, et al.). However, Canada did see the development of a number of producer-owned enterprises in grain handling (Herman) and pulse cleaning. While not formed as co-operatives, these new organizations did involve farmers investing heavily in the agricultural sector. These developments notwithstanding, farmers' involvement in the agricultural supply chain has been much less in Canada than in the US.

NGCs and LLCs can be distinguished from traditional co-ops according to the following criteria: (1) Closed membership; (2) Substantial upfront investment; (3) delivery rights and obligations; and (4) tradable shares. Only those individuals who make the initial upfront investment, which may range from several hundred to many thousands of dollars, are allowed to join the co-operative. When members invest in an NGC/LLC, they acquire delivery rights and obligations that require them to deliver a specified amount of commodity to the NGC/LLC; these delivery rights/obligations are in direct proportion to the number of shares the producer has purchased. If members wish to leave the co-op and/or to divest of a portion of their shares, they may do so by trading the shares – along with the corresponding delivery rights/obligations – to existing or new members. The price of these shares is determined by their supply and demand (Harris, Stefanson and Fulton). An LLC is similar to an NGC, but allows for investments by individuals and groups (e.g., rural communities) that are not farmers (Brown and Merrett 2000).

The rise of the NGC/LLC can be traced to farmers' response to the changes occurring in the agricultural economy; farmers have formed NGCs/LLCs in an attempt to mimic the strategies undertaken by the IOFs – e.g., producing products for increasingly specialized niche markets, developing linkages in the agricultural supply chain, and consolidating to achieve economies of scale and market power (Fulton 2000). Farmers have also formed NGCs/LLCs to address incentive issues – e.g., lack of clear ownership by the members, presence of internal lobbying by groups within the co-operative membership – that have arisen in some of the traditional co-operatives (Cook 1995, Fulton 2000).

Retail Co-operatives

The retail co-operative sector in Canada and the United States face important challenges as the economies of these countries continue to integrate and adapt to changes in consumer mindsets, a rapidly urbanizing population, and advances in communication and information technologies. Conventional retail co-operatives have experienced difficulty in adapting to the challenges of the past three decades; however, the strong cohesion and linkages among retail members of Canada's large federated co-operatives (especially Federated Co-operatives Limited (FCL) in Western Canada) has secured these co-operatives a place in many communities across Canada. There are also opportunities for co-operatives. Many retail co-operatives are succeeding in niche markets serving communities of interest in organic, fair trade, and natural food markets; while others are using Internet technologies to grow their memberships and connect with them wherever they may be.

Canada

Responding to economic downturns and increasing competition from national and trans-national retail chains has been a critical challenge for Canada's retail co-operative sector. For the most part, this sector is dominated by large, regionally based co-operatives operating under a federated structure. The retail members of these large federated co-operatives are especially important to the people and communities of rural and northern Canada, as they are often the primary provider of groceries, fuel, and hardware. They are also important competitors in many of Canada's urban centres where they go head to head with large multinationals such as Wal-Mart. In these ways, Canada's consumer co-operatives have being particularly affected by issues associated with globalization: declining rural populations and increasing competition as neo-liberal economic policies have opened Canada's domestic economy to large multinational firms.

In Western Canada, there is a strong co-operative retail sector centred on the success of Federated Co-operatives Limited (FCL) and its system of member-retail co-operatives (referred to as the Co-operative Retailing System (CRS)) which stretches across the four western provinces. As with the agricultural co-operatives, there is substantial consolidation as smaller retail co-ops, often located in smaller rural communities, merge; the number of members in the

CRS has fallen from 343 in 1995 to 313 in 2003 (Co-operatives Secretariat, 1997, 2006). FCL is the largest non-financial co-operative in Canada, reporting total revenues over $4 billion and $1.9 billion in assets in 2004 (Co-operatives Secretariat, 2004b). Calgary Co-op Association Ltd., a member-retail in the CRS, is the largest retail co-operative in North America with nearly 40 percent of its local retail market (Co-operatives Secretariat, 2004a).

In Northern Canada, Arctic Co-operatives Limited (ACL), an affiliate member of FCL, provides a variety of services to its member-retails, including accounting, auditing, marketing of arts and crafts, purchasing and transportation of merchandise, and advisory and support services such as training and education for elected officials and staff. ACL's 36 member retails are located in remote and isolated communities of Canada's far north. Member retails market artisan products and provide much needed services such as groceries and fuel; they are also involved in hotels and tourism, taxi and cartage services, and cable television services. ACL, its member-retails and the communities they serve are hampered by problems related to access to training, capital, financial services, and communication and transportation infrastructure.

In Atlantic Canada, Co-op Atlantic and its system of member-retails (which included 128 member co-operatives in 2005, down from 168 in 2000) are experiencing on-going problems as pressures from competitors and a troubled regional economy have forced a number of its retail members to restructure their operations. In 2000, 28 of Co-op Atlantic's 114 consumer co-operatives were experiencing financial difficulties; after receiving merger approval from the retail co-operatives, the Consumer's Community Co-operative (CCC) was established January 1, 2001 with 33 stores in four provinces. In 2002, seven stores were closed; as of February 2006, the CCC has been reduced to 17 stores (Brown, 2006). The worsening situation at the CCC is especially critical in terms of the well being of Co-op Atlantic. Because the CCC is large and represents a high percentage of Co-op Atlantic's sales, the success and viability of both organizations are interlinked.

Co-op Atlantic is not the first regional co-op federation to experience economic crisis. The economic recession of the early 1980s hit consumer co-operatives in Canada (and as we shall see in the next section, the US) hard. FCL and its system of member-retail co-operatives were especially affected by the economic downturn and the high interest rates of that time; the problems were so severe that the system was near collapse (Fairbairn 2004). The problems faced by the CRS can be linked to a number of factors, including significant expansion (and borrowing) in the 1970s that left the member retails vulnerable to high interest rates, increased competition from competitors as they centralized service and decision making (Hammond-Ketilson, 1988), and an attitude of dependency on FCL – the prevailing view was that FCL would not let a local retail fail. FCL and the member retails survived by making substantial cuts to salaries, services provided, and inventories. FCL also put an end to the practice of allowing the retails to use their shares in FCL as collateral for loans, a practice that had contributed to the retails overexpansion.

While Canada's large federated co-operatives and their member-retails struggle to find a place for themselves in the extremely competitive grocery sector, retail co-operatives operating in niche markets have been able to take advantage of changing consumer values and advances in information technologies to build their memberships and serve them faster.

Mountain Equipment Co-op (MEC) was established in 1971 by a small group of outdoor enthusiasts that wanted a place to buy mountaineering equipment that was not sold by conventional outdoor retailers. Today, MEC specializes in outdoor equipment and apparel, and is one of the fastest growing retail co-operatives in Canada with more than 2.3 million members in 2006, an increase of approximately 500,000 from 2002 (Bartlett, 2006; Co-operatives Secretariat, 2004a). Unlike the retail co-operatives discussed earlier, MEC is not organized along a federated structure. Headquartered in Vancouver, BC, MEC operates 10 retail stores across Canada. MEC also provides its members with online shopping from its website and there is a mail-out catalogue that enables members to place orders by phone.

MEC is active in a variety of sustainability and ethical sourcing programs. In addition to its own internal policies to conserve energy, reduce wastes, construct environmentally friendly retail stores, and reduce paper consumption, MECs operates an ethical sourcing program that includes audits of factories that produce MEC brand-products. It also provides funding for sustainability projects.

MEC is a leader in the use of Internet technologies. In addition to the online shopping feature, MEC's website enables members to list, trade, and sell their previously used equipment, calculate their ecological footprint, order board of directors' election packages, and vote online.

United States

There are approximately 350 retail food and grocery co-operatives in the US, generating annual revenues of $33 billion. Many of the retail co-operatives in the US are small, locally based co-operatives specializing in niche market goods. These co-operatives are involved in the retail of natural, organic, locally produced and fair trade products. Some of these co-operatives are also members of wholesale grocery co-operatives; examples of these wholesale co-operatives include: Frontier Natural Products Co-op in Iowa, Tuscon Co-operative Warehouse in Arizona, and Ozark Co-operative Warehouse in Arkansas (National Cooperative Month Planning Committee, 2005).

The U.S. consumer co-ops historically grew out of the "new wave" of whole foods stores that were formed in the 1960s and 1970s. This initial wave of co-ops ran into serious trouble in the 1980s. The flagship co-op, the Consumers Cooperative of Berkeley, like many others, closed their doors. The problem facing these co-ops has been described as follows: "co-ops were caught in a spiral of environmental changes. With reduced economic need and societal motivation, member commitment and motivation diminished, and the democratic structures became less functional. The co-ops now had to respond to the same market forces as their competitors yet without their former 'special advantage' of member allegiance, and while burdened with definite structural liabilities. They then had no choice but to become increasingly like the competition in operations and strategies. Finally, as ordinary stores, many found themselves lacking a clear identity or a meaningful sense of purpose" (Grott).

The food co-ops that are in operation today likewise have their roots as an alternative to the large supermarkets. These niche market co-operatives are strengthened by their close ties to their members, and their common interest in issues of sustainable and socially responsible food production and consumption The challenges facing these co-operative retailers are similar to the challenges facing many small and medium-sized businesses that are experiencing challenges related to growth, including problems related to expansion into new communities and the recruitment of skilled workers.

An examination of Hanover Consumer Co-operative in New Hampshire provides some insight to the problems and issues facing most retail co-ops in the US. Hanover Co-op is the second largest food co-operative in the United States and like many of its counterparts it specializes in the sale of natural, organic, bulk and prepared foods. In addition to its food retail side, the co-operative operates a gas station and convenience store and an automobile service centre that sells fuel and automotive parts (Hanover Cooperative, 2005).

Although the co-op continues to grow both in terms of sales and membership, it faces a number of challenges. One of its most important challenges is attracting and retaining skilled workers. This has been a chronic problem for the co-operative as indicated by the general manager in the co-op's annual reports from 2002 to 2005. The co-operative has had difficulty recruiting for entry-level positions, as the co-op is located in an area with a limited labour pool – "too many jobs open for too few workers" (Hanover Cooperative, 2005). As a result the co-operative, has taken steps to retain staff, offering a health-care plan and re-classifying job positions creating a senior level for frontline staff with an increase in wages. Hanover also faces challenges with respect to growth. The Hanover location is stretched to capacity and the options for development are limited to expanding the nearby convenience store location. The co-operative is also receiving requests from nearby communities to open additional locations. However, all of these opportunities are constrained by the co-operative's ability to raise additional capital as most of the co-operative's capital is tied to assets – buildings, land and equipment (Hanover Cooperative, 2005).

While co-operatives have a strong presence in the niche food market in the US, the largest consumer co-operative in the country specializes in the sale of outdoor equipment and apparel for activities like hiking, climbing, bicycling, and paddling. Recreational Equipment Inc. (REI), which was started in 1938, has more than 2.8 million members and annual sales totalling $1 billion in 2005 (REI website). Over the past decade, REI has experienced significant growth expanding from 49 stores in 1997 to 82 stores in 2005; it plans to open 8 more locations in 2006 (REI website; McCredie, 1997, online). The REI website also enables REI members and non-members to shop online.

Although REI and MEC specialize in the sale of outdoor equipment and have a similar membership size, REI is a much larger organization than its membership size indicates. REI has approximately 8 times the number of stores than does MEC, and in 2003 REI had annual sales of $840 million (US) whereas MEC had annual sales of $166 million (Cdn) (REI website; Co-operatives Secretariat, 2004b, online). One reason for the significant discrepancy between these two organizations might lie in MEC's policy that only MEC members can purchase goods from the co-operative, whereas REI permits non-member purchases.

Credit Unions

Although the credit union systems in Canada and the United States are quite different – for instance, Canada does not have the common bond requirement that characterized US credit unions for much of their history – the pressures they face and the responses to these pressures are similar. In both countries credit unions have been getting larger – in Canada this has largely been accomplished through mergers, while in the US significant effort went into modifying the common bond concept so that credit unions could attract new membership and grow. The larger size is among a number of factors that have lead to increased numbers of demutualizations in both countries.

Canada

The credit union sector in Canada, like its counterpart in the US, has devoted its efforts to remaining competitive with the commercial-banking sector in an environment characterized by increasing deregulation (non financial institutions such as insurance companies have been allowed to offer financial services), increased competition (foreign financial institutions have been allowed access to the Canadian market), technological advancement such as Internet banking, and personal mobility. And, like those in the US, Canadian credit unions have responded to these pressures by consolidating their activities and adopting new banking technologies that increase their efficiency and make them more competitive. Credit unions are also doing things that the banks are not doing; in particular, credit unions are servicing small, rural communities where the banks have pulled out their branches.

Canada's credit union sector has been consolidating for decades. Zinger (1994) argues that during the 1980s mergers were an important means for many credit unions to develop a capital base for coping with low profits and already thin capital bases resulting from the member payouts that credit unions must make. By the late 1990s mergers were identified by many in the credit union sector as an important means of doing business and staying competitive. For instance, the vice president of trade services and corporate secretary of Credit Union Central of British Columbia, Richard Thomas said: "In the '80s, consolidation occurred among small credit unions that were weak and unstable. In the 1990s, mergers occurred among large credit unions seeking to become larger and gain efficiencies" (Grace, 2006). As a result of these and other pressures the number of credit unions and caisses populaires has declined from 4,117 in 1975 to

2,664 in 1991 and by the end of 2001 the number declined to 1,595 (Zinger, 1994; Department of Finance, 2003).

Two merger examples highlight the importance that credit union managers and leaders place on growth strategies, especially those associated with mergers. Both examples occurred in British Columbia. The first example is the formation of Coast Capital Savings on December 31, 2000. The merger between Richmond Savings Credit Union and Pacific Coast Savings Credit Union is the second largest on record and made Coast Capital the second largest credit union in Canada, with assets of 3.2 billion, 180,000 members and 25 branches on Vancouver Island and the Lower Mainland (Coast Capital Savings, 2000, online).

The second example concerns Surrey Metro Savings and Credit Union. Prior to the merger with Pacific Coast Savings, Richmond Savings had been in merger discussions with two other B.C. credit unions, Surrey Metro and Gulf & Fraser Credit Union (Stueck, 1999, B12). For Surrey Metro the decision to pull out of the merger talks with Richmond Savings and Gulf & Fraser came on the heals of a much debated merger proposal between Surrey Metro and Canada Trust (at the time, these two organizations were the second largest credit union and the largest trust company[1] in Canada, respectively). The merger was quashed by a member revolt; the members also called for the resignation of the credit union's board and Lloyd Craig, the president and CEO. The members' efforts were in part a response to the credit union's 1992 decision to list non-voting shares on the stock exchange.

Like conversion cases in the US, Surrey Metro's experiment with listing shares on the stock market and its flirtation with the banking sector highlights both the support that credit union managers and boards of directors have for conversion as a means to improve competitiveness, and the nuanced participation of credit union members in the decision-making of their organization. The proposed Surrey Metro-Canada Trust merger indicated that, for the most part, the discretion of credit union managers and BODs remains unchallenged, unless the local autonomy and the decision-making power of the membership is threatened as in the case of a conversion or buy-out.

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[1] Canada Trust was acquired by the Toronto Dominion Bank in February 2000. The new organization is known as TD-Canada Trust and is the personal and commercial banking arm of the TD Bank Financial Group.

Another important trend in Canada's credit union sector is the decision by many credit unions to purchase bank branches in rural and isolated areas of Canada. According to the Department of Finance, "in 2000 and 2001 credit unions in British Columbia, Manitoba, Saskatchewan, Alberta, New Brunswick and Nova Scotia purchased 72 bank branches in communities where some of the six largest banks had discontinued their operations" (2003). During that period, the most bank purchases were made by credit unions in Manitoba, Saskatchewan, Alberta and British Columbia. Credit unions in Manitoba, Saskatchewan, and Alberta purchased 51 Bank of Montreal branches (17 in each of the provinces); in British Columbia, 13 Bank of Montreal branches were purchased. Commenting on the deal a spokesperson for the Credit Union Central of Saskatchewan said:

> "First, it's good business for Saskatchewan credit unions. The growth will allow credit unions to serve their members and their communities more efficiently. It's good for bank customers. They will continue to have access to face-to-face service with their financial institution in their community. We believe it's good for bank employees. We're delighted to be able to offer and preserve employment for over 60 employees in these communities" (Johnstone, 2000, C6).

Ontario credit unions have also begun to fill voids in rural communities where banks have pulled out their operations. In 2005, a credit union was established in the community of Cardinal, Ontario following the decision of the Toronto Dominion bank to close its branch in that community. Because the bank was the only financial service provider in the community, "business people [in Cardinal] feared that if the bank closed, their customers would take all their business down the road to Prescott or Brockville, since they would have to go there anyway" (Toronto Star, 2006). Lack of access to financial services for rural communities is not a problem specific to the community of Cardinal. According to the Credit Union Central of Ontario, there are 42 communities in Ontario where a credit union is the only financial institution servicing the community (Annual Report, 2005, Cover). As the Toronto Star reported, the Credit Union Central of Ontario expects this number to grow as the banks pursue strategies to cut costs and improve shareholder value.

Although the merger strategy of Canada's large credit unions are very different than the rural intervention strategy of smaller rural credit unions, both strategies have been used to grow Canada's credit union sector. These strategies also highlight a dichotomy in the credit union mindset. The one is indicative of large urban credit unions and their managers as they search out strategies (i.e. consolidation) in order to remain competitive with the commercial banks; the other is indicative of rural credit unions and community-minded individuals who want access to financial services and prefer local autonomy and member ownership and control over the uncertainty that follows when decisions are made with shareholders interests top of mind. Interestingly, the provincial centrals have encouraged both strategies as they serve to grow the larger credit union sector.

United States

The common bond concept has been one of the most important and debated issues affecting the growth and development of the credit union sector in the United States. During the development of the credit union sector, the common bond principle was an important tool used to organize individuals of similar circumstances and/or characteristics in the formation of credit unions. It also restricted credit unions from doing business with individuals that did not fit the common bond; for instance, employment with a specific company, residence in a particular community, or membership in a particular religious group. The number of credit union members has increased more or less continuously for the last 65 years, reaching over 80 million in 2005; the number of credit unions, however, peaked in the last 1960s and has been falling ever since as consolidation has occurred (Credit Union National Association, table 1).

The common bond restriction on membership is assumed to reduce the costs of gathering credit information and, as a consequence, minimizes the exposure of individual credit unions to bad debt losses (Ferguson and McKillop, 1997, 21). However, this restriction has also impaired the ability of credit unions to remain competitive with other financial institution, as restrictions on membership limits the financial service that credit unions can offer their membership. As a result, efforts to deregulate the credit union sector and to relax the common bond requirements have been on going since the early 1970s.

An early first step was the easing of the regulatory definition of common bond in 1972; this was an important step that contributed to the growth of credit unions. According to Ferguson and McKillop, the redefinition was significant as it "removed and replaced … the previous requirement that members 'know each other' … with a definition that was more in keeping with the social and demographic realities of US society" (1997, 49).

Another significant step occurred with the passing of the Garn–St. Germain Act in 1982. As Srinivasan and King state, “Credit unions’ competitors often assert that much of the growth in credit unions’ share of consumer lending have been driven by the relaxation of membership requirements implemented in 1982 and later by the federal credit unions’ regulator the National Credit Union Administration (NCUA), combined with continuing exemption from federal corporate income taxes” (1998, 33). Federal credit unions are charted and regulated in operation by the NCUA, and are exempt from federal income taxes under the Federal Credit Union Act of 1934 (Miller, 2005). These and other changes have made credit unions closer competitors with other financial institutions.

Perceiving that the growing credit union sector and its federal tax exemption was a threat, commercial banks challenged the definition (or interpretation) of the common bond and made proposals for eliminating the federal income tax exemption (Srinivasan and King, 1998, 33,35). In October 1997, the matter came to the US Supreme Court. At issue was the interpretation of multiple common bonds of membership for federal credit unions. In February 1998, the Supreme Court decided in favor of the banks in a tight 5-4 decision; however, “the bankers’ victory was short-lived … as Congress almost immediately drafted new legislation that enables credit unions to continue growing much as before – including multiple common bonds within a single credit union” (Emmons and Schmid, 1999, 45).

President Clinton signed the Credit Union Membership Access Act on August 7, 1998. The act, along with grandfathering credit unions that included multiple common bonds before the February 25th Supreme Court decision, also made provision for all federal credit unions to accept additional membership groups with multiple common bonds as long as the group had fewer than 3,000 members; in certain circumstances the NCUA was given the right to grant exemptions to the 3,000-member limit (BNA Banking Report, 1998; cited in Emmons and Schmid, 1999). Another important feature of the legislation was that it did not change the credit unions’ tax exemptions (Goddard et al, 2002, 2329).

Interestingly, although measures like the 1998 Act and the 1980 Depository Institutions Deregulation and Monetary Control Act have enabled credit unions to grow their memberships and permitted the sector to consolidate respectively, these measures have (as the Supreme Court and advocates for commercial banks suggested) diluted the credit union sector making the credit unions larger and less accountable to their core membership. Since, the 1998 Act “authorizes and clarifies a federally insured credit union's right to convert to a mutual savings bank or savings association without prior NCUA approval" (BNA Banking Report, 1998; cited in Emmons and Schmid, 1999, 46), many credit unions have converted or have attempted to convert to a mutual thrift or savings bank. In a June 2002 article in the Cooperative Business Journal, the chief economist for Credit Union National Association and Affiliates (CUNA), Bill Hampel, stated: "There's a large handful of credit unions that have converted, probably 20, … so it's a fairly small number. But up until four years ago, we had virtually none" (Taylor, 7). Critics have argued that such conversions have been "engineered" to benefit the former credit union managers and other savvy depositors. This is possible because "professional depositors can reap huge benefits when a mutual savings bank converts to a bank or holding company, as some former credit unions have done" (Taylor, 2004, 8).

This is what happened to the former IGA Federal Credit Union of Feasterville, Pennsylvania, when it converted to a mutual thrift in 1998, which was sold 18 months later to a holding company, Jade Financial. When the holding company was taken over by Philadelphia-based PSB Bancorp, the former board chair of the credit union and others who pushed for the conversion reportedly shared a windfall of $653,000 (Baker, 2002, 7). However, not all conversion stories have had the same ending. The managers and board at the Columbia Credit Union in Vancouver, Washington had their attempts at conversion halted as members of the credit union rallied to overturn a vote in favour of conversion.

Worker Co-operatives

Worker co-operatives are spreading their roots in the North American co-operative landscape. There are approximately 400 worker co-operatives in the US operating in various sectors of the economy; the largest is Co-operative Home Care, a home health care agency operating in the Bronx borough of New York City (Lawless & Reynolds, 2004). In Canada, 305 worker co-operatives were operating in 2002, up from 247 in 1997 (see table 2); most of these co-operatives operate in Québec where provincial government policies have enabled the development of a strong worker co-operative sector (Co-operatives Secretariat, 1999; Co-operatives Secretariat, 2004a).

Forestry co-operatives make-up nearly one-third of all worker co-ops in Québec; they also account for 57 percent of business done by worker co-operatives in Canada (Co-operatives

Secretariat, 2004; 2002 data). The strong presence of worker co-operatives in Québec's forestry sector is a direct outcome of government policies during the 1970s when the government aimed to establish a forestry co-operative on every management unit of public land. This initial development policy was buttressed by subsequent policies during the 1980s that enabled forestry co-operatives to take on development work on public land. In the mid 1980s, forestry co-operatives were also able to take advantage of a reforestation program established by the province (Carrier, 2004). The majority of forestry co-operatives operate in traditional fields of work: commercial logging, forest management, and seedling production in greenhouses and nurseries (Carrier, 2004, 260). In the 1990s, a number of forestry co-operatives diversified and began to build and modernize saw mills and other operations to process timber and other wood products.

As the Québec experience indicates, worker co-operatives can be important contributors to the economy given the right policy environment. Currently, Québec is also experimenting with a new form of worker co-operative described as a worker/shareholder co-operative. Under this structure, employees can form a co-operative to buy shares in an existing business giving them a voice in decision-making. In 2002, there were 99 of these co-operatives active in Québec (Co-operatives Secretariat, 2004a, iv).

Housing Co-operatives

Government policy with respect to social housing has been an important factor in terms of the growth and sustainability of the housing co-operative sector in both Canada and the United States. In both countries cuts to publicly funded housing developments have increased the need for affordable housing solutions like housing co-operatives.

Today, there are 7,500 housing co-operatives in the United States providing homes for 1.2 million families (about 3 million people) at all levels of income. The largest housing co-operative in the United States is Co-op City located in New York City. The co-operative has 15,372 units and assets of $3.1 billion (National Cooperative Month Planning Committee, 2005, 9). In 2002, there were 2,219 housing co-operatives operating across Canada, up from 2,104 in 1997 (Co-operatives Secretariat, 1999; Co-operatives Secretariat, 2004a; see table 2 for Canadian housing co-operative statistics).

In the United States, the Nixon administration adopted measures that encouraged private enterprise solutions to create affordable housing; the result was the eventual elimination of direct federal funding for new low-income co-operatives. In the 1980s, support for public-funded social housing was reduced. Following these cuts many public housing developments were purchased by private owners or converted into co-operative housing. In 1990, the federal government enacted the Low Income Housing Preservation and Resident Homeownership Act, which provided funding for rehabilitating affordable housing properties. The act also made provisions for tenant associations and non-profit organizations seeking funding to purchase affordable housing properties; in all 18,000 co-operative housing units were created as a result of the program (Chicago Mutual Housing Network, 2004, 13-14).

Conversion is also an issue facing many housing co-operatives in the United States as developers seek to turn co-op housing properties into commercial properties or sell the units as condos. Housing members are often lured by the opportunity to make some gains by selling their shares in the co-op; members, however, are not always educated on the costs associated with selling these shares. When a housing co-op converts to a condo both the owners and co-operative can face taxes from gains made on the sale, and the association can face penalties for paying off the mortgage early (Taylor 2004).

Lobbying for increased funding and clear policies with regard to social housing and, in particular, co-operative housing have been important issues for the co-operative sector in Canada. Among the sectors concerns was the decision, in 1996, by the Federal Government to transfer federal housing programs under the direction of the Canadian Mortgage and Housing Corporation (CMHC) to the provinces. The worry among housing co-operatives was that with the transfer some of the decision-making power of the co-operatives would be lost. According to the Co-operative Housing Federation of Canada (CHF 1999), this was what happened when the province of Saskatchewan signed the agreement in 1998 (p. 3). Lobbying efforts on behalf of the sector ensured that federal program co-operatives in other provinces including Ontario, British Columbia, Alberta, Manitoba and Prince Edward Island did not also transfer to provincial authorities (CHF, 2000). Québec housing co-operatives are not administered by the CMHC.

In Ontario, the sector has lobbied for change to the province’s Social Housing Reform Act (SHRA), which was passed into law in December 2000. The Act downloaded responsibility of provincially registered housing co-operatives from the province to local municipalities. In

2005, lobbying by the Ontario sector paid off as the Ontario government made important reforms to the SHRA and announced new funding benchmarks (CHF, 2006).

Co-operative Failures: Linkage, Transparency and Cognition

As the material in the previous section has outlined, co-operatives in Canada and the United States have undergone a number of changes – including consolidation, adoption of new technology, and the creation of new organizational forms – in an effort to respond to globalization pressures and remain competitive with their IOF counterparts. While co-operatives in some of the sectors have been successful in their adaptation strategy, other co-operatives have not been. One reason for these differential achievements is that co-operative success depends not only on the external environment in which the co-op operates, but also how it operates internally. As Fairbairn (2003) indicates, co-operative success or failure can be linked to three concepts – economic linkage, transparency and cognition.

The purpose of this section is to examine how these three elements interacted in the context of the large agricultural co-operatives that have been unsuccessful in adapting to an environment that has undergone a number of major changes. The lack of success experienced by these co-ops serves as a useful reminder that co-operative success cannot be taken for granted and that merely replicating the strategies of the IOFs in a market does not guarantee success. The existence of a number of examples of failure also allows us to see if any patterns exist in why these co-operatives have failed. As will be argued below, the concepts of economic linkage, transparency and cognition provide a useful framework for understanding the troubles experienced in all the failure examples; these concepts also show why replicating IOF strategies does not necessarily entail success. The use of these concepts to examine co-operatives that have failed also allows the question "Did these organizations fail because they were co-operatives?" to be examined.

As Fairbairn (2003) (see also Fulton and Giannakas) argues, a co-operative will only be successful if its members trust it to be an effective agent for achieving their interests and those of other members. Economic linkage is concerned with the degree to which the interests of the members are linked to those of the co-operative. For instance, if the activities of the co-op are structured so that its members benefit when it does well and it benefits when its members do well, then the economic linkage is said to be high. A good example of this mutual interdependence can be found between FCL and the member retails in the CRS – the stronger are the local retails and the more products they sell, the more FCL benefits from the higher volume of goods that they purchase. In turn, the higher volume leads to lower costs for FCL, which in turn means greater net revenue and larger patronage payments to its members.

The degree of economic linkage is highly correlated with the degree of member commitment. As Fairbairn (2003) notes, "A general hypothesis would be that a co-op that cannot form a close economic linkage with its members in at least one of these ways – shared operating success, products to meet specific needs, convenient format or location, or perhaps relational quality – will suffer from weak member commitment" (p. 11).

It is not enough that a co-op and its members have a strong economic linkage – what is also required is that the members understand that this linkage exists and what it entails. The concept of transparency addresses this issue; transparency requires that members understand not only their co-operative, but also the industry or sector of which it is a part, so that they can see clearly what their co-operative does for them. A co-operative is made transparent not only by good communications, but by structures and operations that members can see are designed around their needs. In large part, transparency is about the creation of trust, and trust is enhanced when members can see how decisions are being made and for what reasons, how the benefits they receive are determined, and how others in the co-op are being treated (and for what reasons). For instance, co-operatives with highly complex structures or payment systems are often not very transparent, since it is easy for their members to imagine how cross subsidization could be robbing them of benefits that are instead going to someone else.

Cognition is concerned with how the co-operative views itself and the manner in which it makes decisions. Effective cognition requires that co-ops have a clear, well understood identity, that this identity is routinely and effectively revisited, discussed and revised as circumstances change, and that this identity be appropriate for the time and place. A co-operative's identity must also be shared by the membership; without a shared identity the coordination that is required to operate a successful co-operative will not exist. The cognitive model used by a co-op is strongly influenced by the research it undertakes – the way it asks questions and the way that it interprets information that it receives.

Table 3 outlines the factors that have been identified as contributing to the failure of five large agricultural co-operatives – Agway, Farmland Industries, Tri-Valley Growers (TVA), Rice

Growers' Association (RGA) and the Saskatchewan Wheat Pool (SWP). The factors have been taken from a number of different reports and studies that have examined the performance of these five co-ops and are grouped according to Fairbairn's concepts of economic linkage, transparency and cognition.

All five co-operatives suffered a major loss of member commitment – in some cases due to poor economic performance which left the members will little or no benefit (in the RGA case, the members actually received a bill to cover off their portion of a loss that the co-op had incurred) and in some cases due to a sense of a loss of ownership (e.g., because of equity write-downs or because of changes in ownership structure). The highly diversified operations of all five co-ops may also have contributed to weak economic linkages and weak commitment. Finally, the highly leveraged status of the co-ops likely lead members to believe that the co-ops lacked the flexibility to meet their changing needs.

Transparency was also lacking in all five co-ops. In most cases the co-ops were highly complex organizations with many divisions and activities – the result was the classic black box that Fairbairn (2003) indicates is often associated with low transparency. Transparency was further reduced because of the concentration of decision-making that existed in the co-ops. In all cases the senior management appears to have been effective in wresting power away from the board. In some cases this was due to boards that were ineffective; in other cases this was due to structural changes that lead to less information being shared.

The five co-operatives also shared some major similarities in the cognitive models that they used to make decisions. For example, a commonly shared trait was the perception that each co-op was the dominant player in its sector and that the goal of the co-op was to remain dominant. Thus, for instance, SWP undertook investment strategies on the basis of a belief that they could keep competitors out of the market, rather than whether it made economic sense to the co-op or to the members. For Agway, this cognitive framework manifested itself somewhat differently – it believed that it could run any type of business and routinely put this belief to the test by taking on new activities and absorbing new acquisitions. The inability of all the co-ops to deal with some fundamental structural issues is also an important part of the cognitive model that they shared; one possible source for this element may be the concentration of decision-making and the effect that this has on updating and revising the co-ops' strategies.

Discussion and Concluding Remarks

Taken together, the observations presented in table 3 suggest a number of conclusions. First, and perhaps most importantly, these five organizations did not fail because they were co-operatives. An often-expressed belief is that because of their ownership and control structures, co-ops are inefficient organizations that will eventually be replaced as the market and the membership matures. While the failure of these five large and previously successful co-ops would appear to provide support for this belief, the drawing of such a conclusion would be incorrect. One reason is that although these co-ops failed, other co-ops – often operating in the same industry – remained strong and even prospered. For example, Farmer's Rice Cooperative, which was an RGA competitor, has done well financially, as has a TVG competitor Pacific Coast Producers. While Farmland experienced severe problems, the other large agricultural co-operative operating in a similar area and industry – Cenex-Harvest States – has remained profitable. More generally, the evidence presented earlier in this paper shows that co-operatives have enjoyed considerable success across a number of different sectors of the economy.

The success of other co-operatives suggest that it is not the co-operative nature of the five co-op organizations examined in Table 1 that caused them to fail, but rather the manner in which these organizations operated as co-operatives. Indeed, their financial and organizational failure appears to be linked to their failure to address the issues of economic linkage, transparency and cognition – that is, to properly attend to their co-operative nature.

More specifically, the analysis above suggests a number of lessons that co-operatives might find useful as they attempt to deal with the significant changes that are occurring in the economy and society. These lessons include:

(1) Be careful about letting power accumulate in the hands of the CEO and senior management

(2) Board members need to be properly prepared and equipped if they are to participate effectively in decision making in what is an increasingly complex world

(3) There is a need to create an identity that members can buy into and embrace

(4) This identity, and the strategies that go with it, must be aligned with the interests of the members and the interests and the ability of the co-operative

(5) The co-operative and its activities must be structured so as to provide members with a sense of ownership and trust

(6) Develop a sense of realism about what a co-operative can and cannot do

(7) Make sure that decisions are not based on the latest business school prescriptions or are undertaken on "faith"

(8) Instead, undertake the required research before entering into new ventures or activities

(9) Identify and tackle the key structural issues that the co-operative is facing

(10) Retain flexibility so that the co-operative can reposition itself as events change

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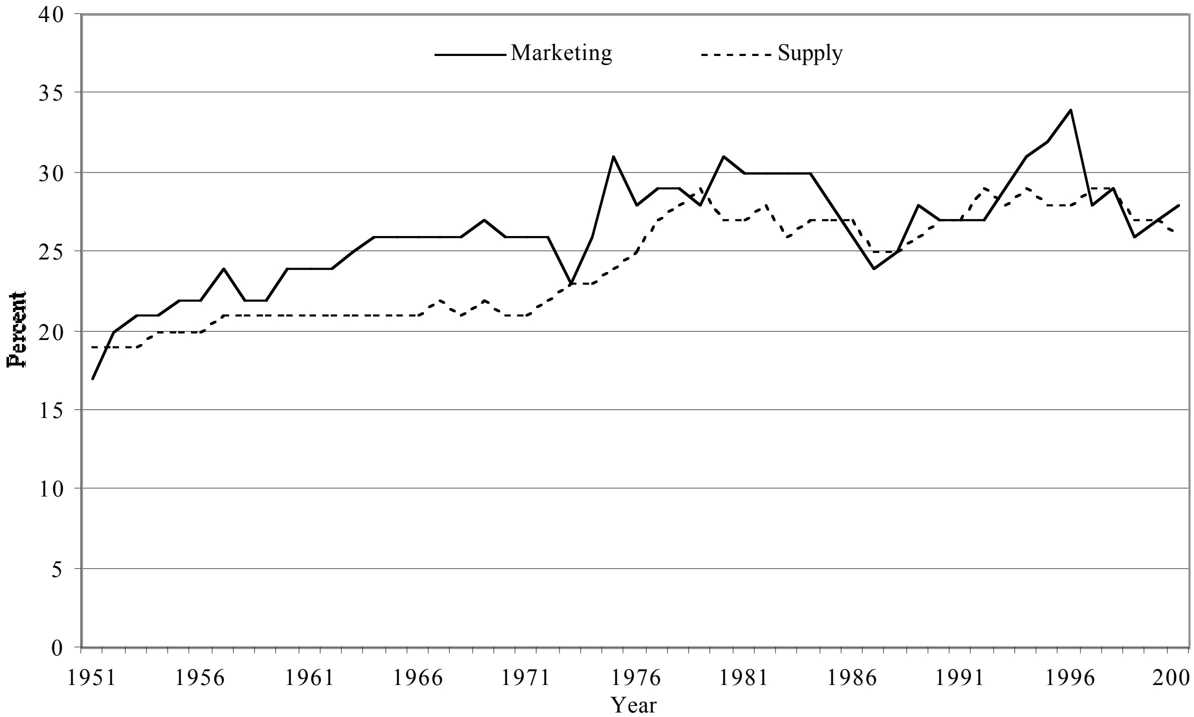
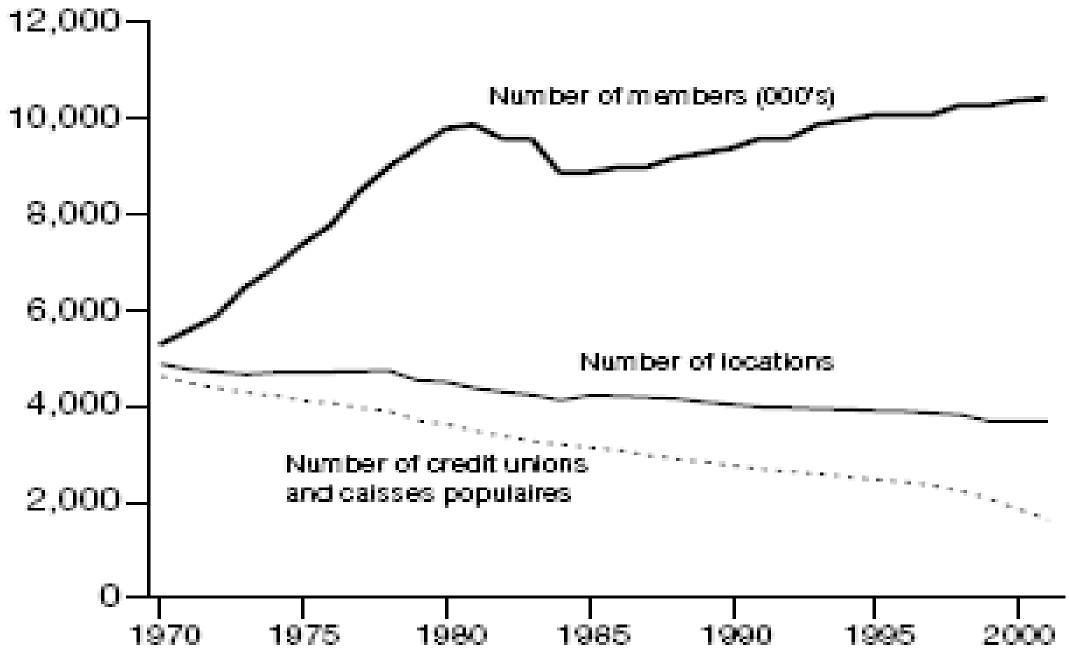


***Source*: USDA (2003, 1998)**

Figure 1. U.S. farmer co-ops' share of total farm marketing and supply expenditures, 1951-2001



Source: Department of Finance

Figure 2. Credit Unions in Canada: Number of Members, Locations, and Credit Unions, 1970-2000.

Table 1: United States Credit Union Statistics (Selected Years: 1980 – 2005)

Year	Credit Unions	Members	Assets
2005	9,011	87,014,017	473,762,398,224
2000	10,684	79,751,873	309,367,084,014
1995	12,209	69,302,489	198,378,397,702
1990	14,549	61,610,959	138,589,070,694
1985	17,654	51,907,540	85,123,373,879
1980	21,465	43,930,569	48,702,532,518

Source: Credit Union National Association (CUNA). (2006). Long-run trends (1939 to present: aggregates), Retrieved on May 29, 2006 from http://advice.cuna.org/download/us_totals.pdf

Table 2: Canadian Housing and Worker Co-operative Statistics (Selected Years: 1995 - 2003)

Sector/Year	2003	2002	2000	1997	1995
Housing	2,176	2,156	2,114	2,054	1,946
Worker	326	305	299	247	225

Source(s): Co-operatives Secretariat, Government of Canada. (2006, March; 2004, December; 2002, November; 1999, June; 1997, July). Co-operatives in Canada, L. McCagg (Ed.), Retrieved on May 29, 2006 from http://www.agr.gc.ca/rcs-src/coop/index_e.php?s1=pub&page=intro#ann

Table 3: Factors Contributing to the Failure of Selected Agricultural Co-operatives in the US and Canada

	Agway	Farmland	Tri-Valley Growers	Rice Growers' Association	Saskatchewan Wheat Pool
Economic Linkages					
Highly diversified operations	• Retail/grocery; feed, energy; insurance, fertilizer distribution, food preservation; seed; leasing; refining	• Grain handling, hog production, cattle marketing, fertilizer, feed, processed food product, strong export orientation.	• Olives, peaches, pears, and tomatoes (154 peeled products, 22 sauces, 61 pastes)	• Attempted to sell products to both the differentiated domestic market and the bulk foreign market	• Grain handling, hog production, cattle marketing, farm input supply, publishing, food processing
Loss of member commitment	• Equity write-downs due to operating losses left members with little ownership in co-op • Involvement in nonagricultural operations (e.g., lease financing, insurance, energy) weakened sense of member ownership • Changes in the agricultural economy reduced number of members and caused members to interact with co-op less and less (e.g., delivery of goods direct from warehouse to farm)	• Equity write-downs due to operating losses left members with little ownership in the co-op • Use of joint ventures had unintended consequence of distancing members from the organization • Growth in food marketing area through cross-subsidization	• Fruit producers upset when profits used to subsidize the money-losing tomato division • Relocation of production caused a mismatch between production and processing capacity, • Processing capability not well matched with market needs • Lack of membership contracts. Was forced to offer growers cash contracts, accelerated payments and low rates of equity retention to source product	• Members sent a bill in 1985 to cover losses incurred in that year • Lack of returns in subsequent years lead to further drop in membership	• Uniform pricing policy did not create incentive for large farmers to use the Pool's services • Change in share structure reduced members sense of ownership • Policy debate on the "Crow Rate" resulted in divisions among members • Slow in adopting innovations (e.g., building inland terminals, supporting protein grading) • Closure of local elevators
Lack of Flexibility	• Heavily leveraged balance sheet	• Heavily leveraged balance sheet; • Subordinated investment made up significant portion of debt, leading to run on callable notes	• Heavily leveraged balance sheet • Missed the explosion in demand in the 1990s for salsas, and pasta and BBQ sauces	• Heavily leveraged balance sheet	• Heavily leveraged balance sheet

Transparency					
Complex Organization	• Large conglomerate with interests in many sectors	• Large conglomerate with interests in many sectors; loss of core competency	• Restructuring plan in the mid 1990s resulted in a complicated pricing formula; many veteran employees with co-op experience were let go		• Large conglomerate with interests in many sectors
Concentration of Decision Making	• CEO was appointed member of the board in 2001, a time when it was clear that Agway was facing serious financial troubles • Low turnover among board members • Large board, with representation by districts (not all of which contributed equally to earnings)	• Lack of separation of management from the board of directors (CEO was, for a while, a member of the board) • Board of directors ineffective in oversight role • Decisions made at top; little feedback or ideas from employees	• Board lacked control over management	• Lack of attention by the board of directors • Board was passive and ill equipped to scrutinize the business decisions it was charged with \ • Board was in need of greater management and financial expertise	• Public listing of shares led to less information being provided to board of directors • "Management was running astray with the company" (Gatin)
Cognition					
View of Dominance	• Overall goal was growth in sales, not profitability • Perception by the management that they could run any business	• Vision of Farmland as a nation-wide co-op involved in all aspects of agriculture • Boardroom slogan – "Make no little plans; they have not the power to stir men's souls."		• Was historically the largest rice handler in California • Big brother to Farmer's Rice Cooperative, which later went on to be very successful	• Mission statement – "Growing global, growing together" • Desire to be the ConAgra of the North • Investment strategies designed to keep out competitors
Inability to Deal with Structural Issues	• Numerous attempts to restructure throughout the 1990s. Restructuring included a conversion to a centralized organization that	• Tensions in federated system between central and the large locals • Serious attempts to consolidate with other regional co-	• Failed to enter the salsa and sauce markets in tomatoes • Co-op suffered because board of directors appeared blinded to economic	• Focusing attention and money on penetrating the differentiated market led to a neglect of the bulk market	• Waited too long to build large inland terminals • Belief that members would remain with the co-op • Attempt to merge

	dealt directly with members • With a few exceptions, Agway's agricultural services were losing money while their nonagricultural services were profitable • Nonagricultural services required more capital than Agway could provide	operatives were unsuccessful • Reinvested in grain business even though indications were it was unprofitable	realities		with other regional co-ops was unsuccessful

Source: Agway— Anderson and Henehan, Fairbairn; Farmland—Torgerson; TVG – Sexton and Hariyoga; RGA – Keeling; SWP – Lang and Fulton.