

Cooperative to Cooperative collaboration and its impact on value-chains

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Cooperative networks

Cooperative model of enterprise has as its inherent feature the propensity to form purpose-driven complex networks. The potential to impact the socio-economic transformation required for a sustainable system is therefore embedded in the model. The cooperative model offers radical imagination required for system transformation - a different mindset placing the collective enterprise firmly in the social sphere of influence and concern.

Cooperative networks are part and parcel of the cooperative identity (the 6th principle of the ICA Statement on the Cooperative Identity: Cooperation among cooperatives), although they are not always easy to coordinate and maintain, and therefore need deliberate attention and resources. The impact of cooperative inter-cooperation and collaboration within the social solidarity economy and beyond is significant, both in terms of building cooperative economies, and in addressing the broad concerns for potential paths to achieving sustainable systems.

Cooperative collaborations and networks take many forms, crossing over the associational side and the business side of cooperative activities and operations, and adding “mutual value” to exchanges. They also include broader partnerships which address complex issues of general societal concern. The following table presents a typology of cooperative networks, based on the purpose of their formation.

Type of network	Forms	Purpose
1. Informal	Peer exchange Information sharing Advice Ad hoc procurement	People centred; relationship building Values alignment Sharing experience Solidary support
2. Co-op to co-op business	Purchase Supply Finance Procurement	Strategic alignment (P6 in action) Shared values translated to operations Non-market activity (social/reciprocal exchanges) Building the movement

3. Secondary co-ops and groups	Shared services Enterprise development Consortia	Economies of scale Cost reduction Bidding on large contracts Growth through spinoffs Joint interest outside the core business
4. Co-op associations and federations	Sectoral or by membership type Regional National Supra-national	Representation Sector & cross sector collaboration Education Technical support/co-op development Policy advocacy
5. Complex networks	Partnerships Emerging networks The commons	Strategic alliances Social / environmental policy initiatives Government / NGO partnerships Building the social solidarity economy (SSE)

Table 1: Adapted from Novkovic 2015¹ and Crowell, Novkovic & Miner² 2022

Successful cooperative complexes (groups or networks) share four mutually reinforcing factors (Crowell³ 2022, see Figure 1):

- 1) A clear understanding of the Co-operative Identity and what makes co-ops philosophically and structurally different from other forms of enterprise
- 2) The shared identity provides the rationale for Principle 6 (Intercooperation) — Creating shared benefit and impact through secondary co-ops, federations, and consortia
- 3) Intercooperation mobilizes the shared social and financial capital for economic expansion (co-opreneurship)
- 4) Which reinforces the ability of the movement to advocate for itself, to influence policy-makers, educational institutions, and activists, and be able to advocate for their members and communities, and a participatory and sustainable system

¹ Novkovic, S. (2015) Co-operative Networks and Organizational Innovation in C. Gijssels, L. Zhao & S. Novkovic (eds.) *Co-operative Innovations in China and the West*. Palgrave MacMillan, London: 47-63

² Crowell, Novkovic&Miner (2022) ICCM Principle 6 course notes, Mimeo

³ Crowell (2022) ICCM Principle 6 course notes, Mimeo

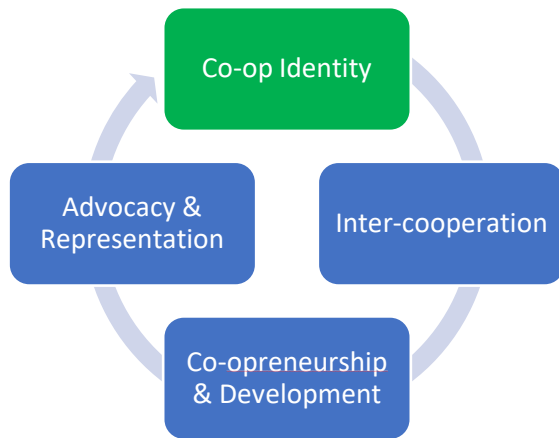


Figure 1: Mutually reinforcing factors in successful cooperative networks

Source: Crowell (2022)

Value chains built on cooperative values

There are different understandings of value chains. In the simplest version, they are understood as value added at various stages in product's lifecycle, from product's conception to its sale to consumers and its life after consumption. However, Kaplinsky (2000, 2013) points out the increased complexity due to multiple activities and intangibles besides the production which affect value added.

Three key components are important in value chain analysis – a) they are repositories for economic rent; b) they involve a degree of governance and control; and c) their gains need to be examined at a system level (Kaplinsky 2000). Due to competitive pressures, economic rents can be more readily found outside of the process of production itself, throughout the intangible parts of the value chain, including its governance (ibid, p 127).

Co-op to co-op business relations come with cooperative values as an added component to the value chain analysis. Solidarity, trust and reciprocity are the embedded features of cooperative enterprise form and at the core of the social capital that cooperatives bring to the table. This impacts the value chain's core components – creating system-level advantages, cooperative democratic governance ensures equitable distribution of gains throughout the value chain while it also brings added product quality to consumers (who may also be members, participating in governance).

It has been recognized that inclusion in the global value chains is not enough to benefit from it. They are marked by inequalities in the distribution of rents, benefiting the party with control power and contributing to global income disparities. In contrast, in cooperative chains control is

shared by the members and partners, so that income distribution is also more equitable. Fair income distribution is one of the key differentiators of the cooperative model.

The cooperative advantage

In its guide for businesses to improve the environmental sustainability of their value chains the World Business Council for Sustainable Development (WBCSD⁴ 2011) lists five factors impacting the successful implementation of a sustainable value chain: leveraging the power of collaboration; understanding consumer needs; identifying hot spots for most impact; ensuring healthy supply and demand; and committing to the initiative.

Here is a brief description of each of these factors, and a look at them from a cooperative perspective:

1. Leveraging the power of collaboration. Complex issues require partnerships between diverse stakeholders to resolve. Effective solutions need a shared vision of sustainability, trust, and long term relationships. Working with competitors is challenging and can be perceived by the external stakeholders as anti-competitive.

The cooperative perspective. Cooperatives form networks of values-aligned partners. Stakeholder inclusion based on trust, reciprocity and a long term view is an integral part of the “Mutual value” cooperatives and mutuals bring to the table (Thambar⁵ 2020).

Further, the multistakeholder cooperative form is an institutional solution fully integrating key stakeholders both at the primary level and as second tier cooperatives with multiple stakeholders as members.

Cooperation among cooperatives is an integral feature of the model, exempt from antitrust regulation in many jurisdictions.

2. Understanding customer and consumer needs, and proactively encouraging them to make new choices. Of particular importance when a price increase accompanies the change is “being honest about the impact and benefits of new solutions and using the right communications channels to encourage customers to purchase the new solutions” (p10)

The cooperative perspective. Consumer cooperatives engage members in decisionmaking. Membership and democratic governance provide different channels of communication and a different method of product development. Values-aligned solutions are key to cooperative longevity. Cooperatives may engage in educational campaigns against greenwashing and

⁴ WBCSD 2011 <https://docs.wbcsd.org/2011/12/CollaborationInnovationTransformation.pdf>

⁵ Thambar, P. (2020) Measuring purpose and value: The mutual value measurement framework, *Financial Management*. <https://www.fm-magazine.com/news/2020/nov/measuring-purpose-and-value.html>

other unsustainable practices through their products and marketing (Fair tax; Fair trade; context-based sustainability reporting; circular design, and the like).

3. Identifying “hot spots” -areas of improvement in the value chain to focus on the changes that will have the greatest environmental impact. Lifecycle assessment with data sharing is key.

The cooperative perspective. Investor owned firms (IOFs) need to be concerned with not disclosing too much information, as they seek the most financial gain for themselves; co-ops usually take an open book approach since cooperative value chains involve relational exchanges. Lifecycle assessment includes social impact and a social dividend in cooperatives. Co-op Fair Trade value chains are good examples (see figure 3 below)

4. Ensuring healthy supply/demand for sustainable value chains to reach economies of scale. Profitability is a concern; sustainability requires investments in technology, R&D and marketing impacting the bottom line and is more costly compared to traditional less expensive value chains.

The cooperative perspective. Cooperatives are often formed to address unsustainable practices. Through self-help organizations and collective action, members engage to deliver ethical products and services throughout the value chain. Return of profits is not the focus, although they need to be financially viable. Cooperatives accumulate (indivisible) reserves which can be used for investments in sustainable practices. Cooperative development funds are also important tools for co-op friendly investments.

5. Committing to the initiative. Top management commitment is necessary; a clear business case is required to communicate the “value proposition”.

The cooperative perspective. Cooperative values mandate commitment to sustainability. This is the cooperative advantage. They do face challenges when hiring top management solely for their industry expertise, while neglecting cooperative leadership expertise, risking isomorphism. However, with a long term view and intergenerational transfer of wealth at its core, cooperatives are better positioned to pursue authentic sustainability.

These positions of advantage in creating sustainable cooperative value chains are directly related to the dimensions of mutual value identified by Paul Thambar and his colleagues (Figure 2), in collaboration with the Business Council of Cooperatives and Mutuals (BCCM) in Australia. Anchored in the ‘mutual mindset’ which includes operationalizing the cooperative values by ethical behaviour and focus on sustainability, the dimensions span commercial activity, member and community relationships, and reciprocity throughout the ecosystem. However, these relationships may be prone to isomorphism, and therefore require a nurturing policy environment, education, and resources to flourish.

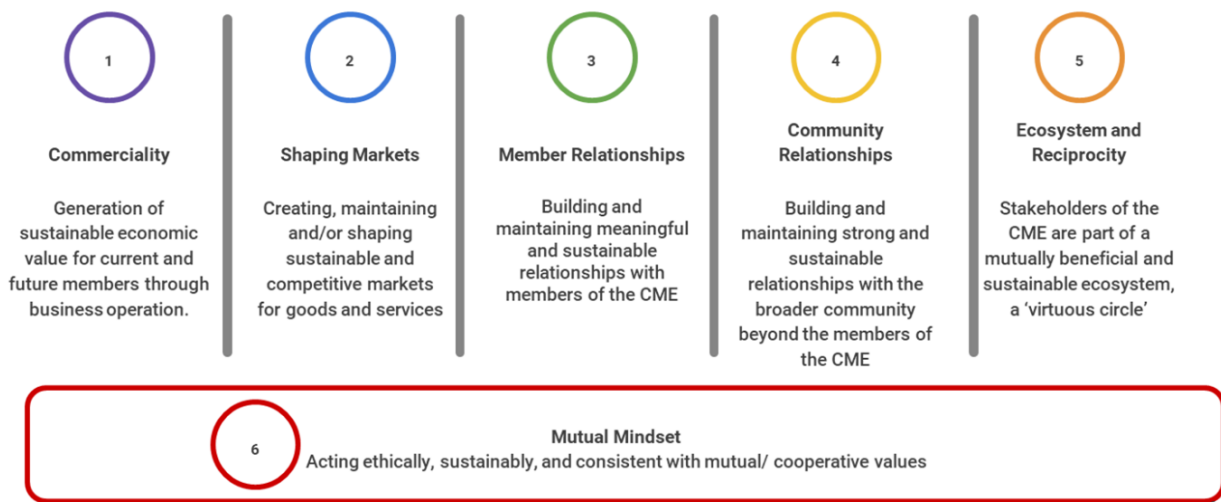


Figure 2: Dimensions of mutual value
Source: P. Thambar 2020

The first dimension is the commercial value of the business, and its returns to members through prices, patronage dividends, and/or reinvestment. Regarding the second dimension, shaping markets, cooperatives are known for their 'competitive yardstick' effect on market structures where they counterbalance monopsony or monopoly markets (Novkovic 2008⁶). However, cooperatives also decommodify necessities and fictitious commodities (see Novkovic 2021⁷). For example, labour is not treated as a commodity in worker cooperatives; or shelter is decommodified by housing cooperatives, whose purpose is to secure affordable housing and protect their members from market fluctuations. The purpose of the enterprise itself is in its 'usership' value (it is used for work, purchases, sales, or other collective purpose), rather than to be built up and sold, as is the case with many traditional startups.

Further, cooperatives shorten the supply chains by deintermediation (removing the 'middle man'). They internalize the externalities as they integrate stakeholders in their decisionmaking, resulting in many cases in multistakeholder cooperative form (see examples below).

Examples of value chains harnessing the cooperative values

While value chain often translates to added value for the final consumer at lowest cost (low price strategy, or differentiation strategy where quality is more relevant to consumers), the

⁶ Novkovic, S. 2008. Defining the cooperative difference. *Journal of Socio-Economics*, 37: 2168–2177.

⁷ Novkovic, S. 2021. Cooperative identity as a yardstick for transformative change. *Annals of Public and Cooperative Economics*: 313-336. <https://doi.org/10.1111/apce.12362>

cooperative value added inserts fair distribution and participation of all key stakeholders-workers, consumers, producers.

Cooperative Fair trade

Indigenous communities in Latin America, Africa, and Asia use the cooperative business model as a tool for sustainable economic development, coupled with autonomy and the preservation of their local environment and culture. Through co-op to co-op and SSE business networks, they engage in Fair trade with more industrialized parts of the world. Relationships throughout the value chain are rooted in shared values of mutual self-help, democracy, equality, equity and solidarity, building economic, social and cultural partnerships based in solidarity and mutual benefit. (Crowell, 2022)

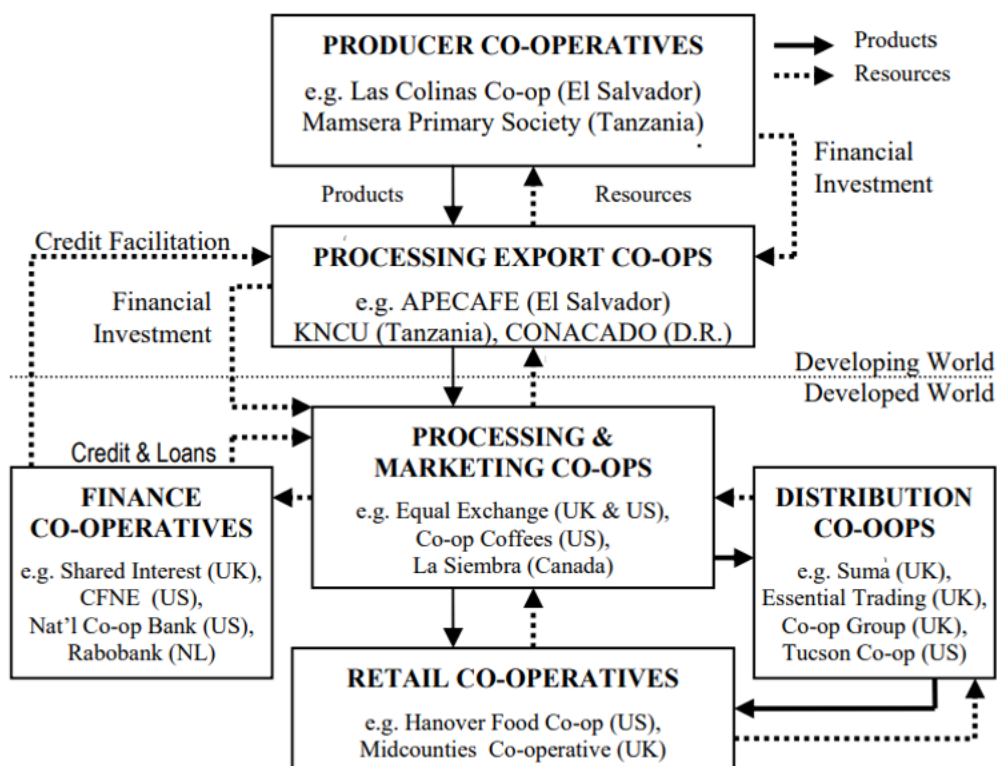


Figure 3: Decentralized global cooperation in the FairTrade system

Source: Crowell and Reed 2009, Fig. 5-4

Inter-relationship between cooperatives in the same functional grouping can also be added to the chart. For example, in 2014, Equal Exchange invested in La Siembra, and in the years since the two organizations have shared resources and staff and have collaboratively launched the Equal Exchange brand in Canada. The two cooperatives added each other's products to their product lines.

Ownership and governance of upstream value chain

Kuapa Kokoo Farmers Union (Ghana) was established as a farmer cooperative in 1993. In 1997 the members voted to set up their own chocolate company, and Day Chocolate Company (Divine Chocolate) was established the following year in the UK, with NGOs and Kuapa Kokoo co-ownership. For two decades Divine and Kuapa Kokoo have worked together to ensure farmers had a voice in the industry, that they had access to good training, that women were empowered, and to facilitate the democratic governance of the organisation. Today Kuapa Kokoo is a flourishing organisation of nearly 100,000 members, producing a significant percentage of Ghana's cocoa export. Kuapa Kokoo is a Fairtrade certified supplier, and runs many of its own initiatives for the health and welfare of its members, from schools to financial cooperatives.

Farmers' control of the fairtrade premium and the return of profits from upstream production and sales to farming communities has had a huge impact on regional development in Ghana. Value chains have expanded through cooperative fairtrade to other regions as well.

" Within the villages, there are new drinking-water boreholes, new or refurbished schools, mobile clinics and better sanitation. The development programme has helped women improve their literacy and numeracy skills, and offered them training in income generation and leadership. It has introduced a child labour awareness programme. The co-operative is made up of a farmer's union, trading arm, farmers' trust to distribute money for community projects and a credit union.

But Divine's impact goes wider still. It sources other Fairtrade ingredients for its products where it can, extending benefits to other Fairtrade farmers producing sugar in Malawi, almonds in Pakistan and vanilla in Madagascar." (Wills⁸ 2015)

Yomol A'tel (Mexico)

Yomol A'tel is a group of five indigenous social solidary economy enterprises in the Chiapas region of Mexico that unites hundreds of families and about 100 workers in the value chain of coffee, honey and other commodities, from harvesting to value added in processing facilities, to coffee shops, microfinance and sales. Two partners are cooperatives - Tumbal Xitalha' SPR (Cooperative Society of Rural Production) owned by the coffee and honey farmers and the microfinance institution, and Jun Pajal Otanil SC PR, a women's cooperative producing soap and hygienic products from indigenous plants. Yomol A'tel is an umbrella organization for these enterprises applying ingredients of solidarity and inter-cooperation in a way that fits the indigenous context and culture.

⁸ J. Wills (2015) Cocoa farmers spread the taste for Divine Chocolate. *The Guardian* 30 April 2015
<https://www.theguardian.com/sustainable-business/2015/apr/30/cocoa-farmers-spread-the-taste-for-divine-chocolate>

“It is through the organized appropriation of value-added processes of its products and under the Tzeltal worldview of *lequil cuxlejalil* (*good living*) that it seeks to maximize social benefit through the sustainability and profitability of value chains.” (www.yomolatel.org)

Multistakeholder cooperatives

Multistakeholder cooperatives include multiple types of members in their ownership and governance, with shared decisionmaking and an agreed upon system of distribution of income and benefits. They are regulated as a special type of cooperative in some cases, but they also form in many countries where legal framework is not prescriptive about the type of membership. They can include regional, national, or trans-national members.

Fifth Season Cooperative (United States) is a regional food hub (a food value chain) with a mission “To produce, process and market healthy, local foods in the region by supporting the values of environmental, social and economic fairness for all.”

The cooperative aggregates and distributes locally grown produce, meats, dairy and value-added products through distributor members. It has six member classes that span the entire supply chain – producers, producer groups, processors, distributors, buyers and workers. Through its multistakeholder structure the cooperative ensures governance and control by stakeholders throughout the supply chain, thereby creating value at each stage in the process – from production, through processing and distribution, to consumption.

Their web site states: “we preserve many things in our region: our health and wealth, the connection between producers & consumers and the market for traditionally, sustainably raised foods.” (<http://www.fifthseasoncoop.com>)

Circular economy – the cooperative way

The circular economy (CE) has become an important strategy toward sustainability. The CE business models in the literature and practice mostly engage with environmental impact of the circular design. Lately, a social component has been considered as an integral factor in creating a “circular society”. The social dimension of sustainability is therefore important, and cooperatives play an important role in creating rich circular value systems.

The Coop Agri-Énergie Warwick (Canada) is an agricultural cooperative dedicated to the production of renewable energy in Quebec. The cooperative is a spinoff of Coop Carbone, a multistakeholder, solidarity cooperative with users, workers, and supporting members, committed to the reduction of greenhouse gas emissions and to collaborative solutions.

Biomethane, or renewable natural gas, is produced in Warwick from the residual organic matter from surrounding farms and businesses, which then use the produced energy. A by-product in this process of purification (digestate) is returned to the farms as fertilizer, thus completing the loop of the circular economy.

“The production of biomethane allows farmers to diversify and increase their sources of income, to participate in the energy transition, to reduce spreading odors and to obtain a digestate with a high agronomic value.” (<https://coopcarbone.coop/projet-phares/coop-agri-energie-warwick/>)

Concluding remarks

Intercooperation is a cooperative principle, built on cooperative values. Cooperatives form rich and interwoven networks, from informal relationships, to business networks and groups; associations and federations to complex networks with diverse actors addressing a common issue. Cooperative value chains add value of mutuality, with equitable income distribution as one of its outcomes.

Cooperatives are prone to incongruent isomorphism due to a lack of understanding of their nature, regulatory pressures, competitive pressures on cooperative leadership, and other factors. Education of cooperative decisionmakers-managers, directors, and members- is extremely important in order to secure benefits of cooperative value chains. Besides education, regulatory frameworks that protect the model are desirable, particularly regarding the asset lock and mandatory indivisible reserves, supported by beneficial tax laws and other instruments.