

# **From “Human Resource Development” to “Co-operative Relationship Development”**

## **Managing and Leading in a Co-operative Paradigm©**

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When one applies co-operative management thinking to the concept of ‘human resource development’, does it stimulate the creation of a new approach to liberating human creativity to achieve organizational goals? Is the co-operative ‘paradigm’ robust enough to change the way we think about the relationships that exist among people in business organizations? When we pose the question - “I know how Human Resource Departments function in investor run corporations but how should human relationship issues be dealt with in a co-operative business?” - are there distinctive answers? These questions take on added interest in light of assertions that “HR” is increasingly taking ‘centre stage’ in increasing numbers of businesses.<sup>1</sup>

As with any exploration of co-operative business issues, we need to begin with some reflection on the nature and purpose of co-operative business and a commitment to the thoughtful application of co-operative values and principles to human relationship issues. How will the management of human relationship issues contribute to the creation of the co-operative difference and the advancement of successful co-operative businesses? Making the business relationships ‘co-operative relationships’ is essential.

A co-operative business has a different purpose, or if you like, bottom line, than investor-owned firms. While an investor owned firm exists to maximize the rate of return for its shareholders’ invested funds, a co-operative exists to meet people’s needs. Consumer co-ops seek to provide their members with fair prices, quality service, benefit to the community, and trustworthy quality. In short the consumers get to define their needs and have the co-operative meet them. Producer co-operatives give farmers or fishers or crafts people the opportunity to have their needs met for fair prices on supplies and a fair return for their products. Worker co-operatives give workers the ability to provide themselves with a livelihood, security and a safe work environment.

The core thinking on co-operative business began hundreds of years ago. People were seeking an alternative to being cheated and exploited by the businesses of the day. The alternative they gave birth to was co-operative business. In trying to develop an alternative to business based on investor interests, co-operators developed a set of values and principles that fitted well with each other and edged closer and closer over time to being complete. While such a set of values and principles will always be in a state of

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<sup>1</sup>Catherine Fredman, HR Takes Centre Stage, CEO Magazine, November 2003, HR, pp.37-40

evolution, it is worth recognizing that the value set we now have in place is a reflection of several centuries of learning about what works and what does not work in co-operative human and business relationships. The values and principles are about relationships.

Co-operative businesses that do not learn to apply the values and principles in a systematic and thoughtful way are likely to find themselves in trouble. The set of values and principles form a paradigm - a cohesive, consistent framework of thought that shapes the way co-operators and co-operative business understand the world and act in it. Together these values and principles form an attitude of respect for the dignity of human life and human community. That paradigm is often at odds with other ways of thinking about the world. One of the challenges facing the co-operative paradigm is that co-operative managers are under constant pressure to conform to non-co-operative paradigms that shape how investor-owned enterprises understand and act in the world. This has inherent dangers. As Davis and Donaldson point out, "If co-operatives use methods and techniques that are not consistent with co-operative purpose, it is not surprising if co-operatives begin to resemble their mainstream counterparts for good or ill. A challenge is to examine all management skills with a view to determining whether they are consistent with co-operative purpose."<sup>2</sup>

If the purpose of co-ops is to meet human need, thinking about people as mere resources to be utilized like raw materials (even as the most important 'resource') seems at odds with that purpose and paradigm. In a co-operative, the objective is to use resources to serve people. Having people reduced to the status of raw materials does not fit the co-operative paradigm. In a co-operative business, the work is not maximizing the contribution of human capital to the bottom line, but rather fostering co-operative relationship management that enhances the dignity of people and their ability to contribute to community well being. In an investor driven business, the **structure** is designed to use resources like raw materials, buildings, equipment and people to give investors the best possible return on their investment. In Catherine Fredman's words, "In the final analysis companies are elevating the HR role because it helps them make money and raise their stock prices."<sup>3</sup> *Some individuals* in corporations can, and often do, seek to work *with* people and enrich them rather than '*use*' them. Such people are innovative, value driven and remarkable, since the structure and purpose of the corporation does not support their orientation. I will return to this theme below.

Co-operatives provide people with an alternative framework within which to use resources to meet their needs. A strategy aligned with the purpose of a co-operative and the co-operative paradigm would be to structure relationships between people in such a way as to have peoples' needs met – all peoples' needs including the workers, consumers, suppliers and community members. To achieve that, the co-operative systematically needs to apply co-operative values and principles to every task at hand, and to do it in such a way as to ensure that the co-operative is a successful business and handles its

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<sup>2</sup> Davis, Peter and Donaldson, John, Co-operative Management, A philosophy for Business, New Harmony press, 1998, P. 128

<sup>3</sup> *ibid*, Page 40

resources in a prudent manner that allows it to continue to meet people's needs into the future.

The co-operative purpose has another logical imperative. If co-operatives have a different purpose, then, unless they act differently in a way that reflects their values, nobody needs them. Investor owned companies have a different purpose and they do an excellent job of achieving that purpose. Co-operatives, that by their nature promise people an alternative and fail to deliver any difference from their investor owned competitors, are in the long run, at serious competitive risk. The plus side of this coin is that if they do in fact offer an alternative, firmly rooted in an astute reading of people's needs, they will have difficulty avoiding success.

If a co-operative's purpose is to structure relationships between people in such a way as to have people's needs met, perhaps it is time for co-operative business to begin talking about Co-operative Relationship Departments rather than human resource departments. That something different is called for has been recognised by Davis and Donaldson. "Co-operatives are different enough from mainstream management to require their own principles, concepts and training materials."<sup>4</sup> But what would such a name change mean, and more importantly, what would it improve? To the extent that changing the name would lead to revising the way we think about of people and their roles in our co-operatives, the impact could be enormous. So how might this impact on human relationship management? Human relationship management includes recruitment, management culture and style, management structures, performance enhancement, measurement and satisfaction, and human development and learning. These functions are essential to the co-operative meeting human needs. One might engage in some preliminary speculation as to how changing how we think might affect what we do.

**Recruitment** goals need to include attracting people whose values are consistent with the co-operative purpose, values and principles and who have the skills, capacities and attitudes to contribute. To recruit people who believe co-operative values are old fashioned or silly or stupid, does no favour to the person recruited or to the co-operative. To hire a manager with a strong authoritarian style and put the co-operative management principles up on the wall is to invite worker dissatisfaction. Common sense and observation tell us that there are many people driven by positive values working in corporations despite the fact that many of the corporations they work in do 'bad' things.<sup>5</sup> Might they be more at home and indeed more productive in a business that is driven by values they share? Experience, such as that of Hanover Co-operative in New Hampshire, suggests that seeking them out makes good sense. (See Exhibit 1 below.)

**Management culture and style** need to reflect co-operative values not just to avoid 'cognitive dissonance' (the gap between what we say and what we do), but because much research over the past thirty years shows that such values make for

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<sup>4</sup> Davis, Peter and Donaldson, John, op cit, P. 128

<sup>5</sup> See for example Ralph Estes book, *The Tyranny of the Bottom Line: Why Corporations Make Good People Do Bad Things*, Berrett-Koehler Publishers, San Francisco, 1996, ISBN 1-881052-75-3

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### Exhibit 1

satisfying and productive workplaces.<sup>6</sup> A significant number of investor owned firms (driven by innovative and principled leaders) and co-operatives have experimented with values driven management cultures and styles and have experienced success. Examples include participatory worker involvement programs that improve productivity and increase worker satisfaction. Co-operatives are uniquely placed to be successful through values driven management and worker engagement because they are able to have 'multiple bottom lines' where a credible balance between financial and other goals can be developed. It is the possibility of the multiple bottom lines that can allow trust between workers and management. Worker owned co-ops are especially well placed to reap the benefits of worker engagement because the ownership structure and values makes real trust possible.<sup>7</sup>

As the last century ended, worker, consumer and producer co-operatives in the English-speaking world were beginning to experience 'convergence'. Co-

<sup>6</sup> Fredman, op cit, cites a 2002 Gallup analysis of 309,000 workers across 11,000 business units in 23 countries that shows increased worker engagement having a positive impact on employee retention, productivity, customer outcomes and profitability.

<sup>7</sup> The positive impact of worker ownership on productivity has been documented as early as 1982. For example, see Lindenfield, Frank and Rothschild-Whitt, Joyce, Editors, Workplace Democracy and Social Change, 1982.

operative systems like the Mondragon Co-operative Corporation experimented with stakeholder co-operatives in the 1960's. The Board of Eroski, the Basque Country's consumer co-operative giant, is made up of six worker-members elected by the workers and six consumer members elected by the consumers. Both the consumer and worker stakeholders co-operate to run the business. The Mondragon co-operative culture is based on worker involvement and democratic decision-making, often contrasted with consumer or producer co-operative models where worker engagement in decision-making sometimes lags behind even their private sector competitors and from time to time descends to exploitation.

Consumer co-operatives in Atlantic Canada have begun to put more and more workers on the board and there is growing discussion about having worker members elect worker members and consumer members elect consumer members. Over the past few years Canadian co-operative law has allowed different 'classes of members'. For the first time this has opened the door to new forms of 'stakeholder co-operation' where worker participation, community involvement and producer involvement are blended with consumer participation and influence. Developments such as these confront Co-operative Relationship Departments with new challenges and the need to adapt and evolve co-operative management culture.

In co-operatives, the education to support democratic practice is, in large measure, a co-operative relationship focus. People need to ask questions like: What are the management leadership styles and staff roles that are consistent with democratic functioning and other co-operative values? What are the organizational reward and promotion systems?

**Performance enhancement, measurement and satisfaction** ideas fit well within the co-operative alternative. The co-operative paradigm is based on the assumption that people are good and that they seek to do good things. In such a paradigm, measuring worker performance would not become a policing function but rather feedback and empowerment. 'Changing the thinking' is a subtle but powerful change – the basis of a significant change in the organizational culture. Co-operative Relationship Departments that are reflective of co-operative values and principles will develop policies and programs that provide people with opportunities to contribute to achieving group goals and to experience the satisfaction of progress. Performance measurement at the service of workers and work teams nourishes satisfaction in the same way that arbitrary judgemental authority undermines it and sows fear.

**Human development and learning** take on new meaning in the context of a business whose purpose is to meet human goals. In co-operatives it is an enormous challenge. As individual skills and understanding increase, people experience more meaningful and rewarding lives. Co-operative Relationship

Departments need to harmonize individual development with work team and organizational needs. Co-operative Relationship Departments need to understand the need for the co-operative difference and make possible the learning experiences that shape new products, promote win-win thinking, facilitate conflict resolution and encourage people to think outside the investor owned corporate box that dominates the business world, government and universities.

As co-operatives have grown, the need for management sophistication and the sophistication of co-operative thought have grown as well. The need for learning programs to meet these challenges has also grown but for the most part, at primary, secondary and post secondary levels, the education systems have developed only programs to meet the needs of the investor-owned model. This has meant a poverty of co-operative business solutions being studied and validated. Business school case studies of co-operative business issues have been exceedingly scarce. There has been a massive public subsidization of the investor driven business model through both courses and research and almost no business school research on co-operatives. Co-operative business managers have been forced to borrow and adopt solutions and innovations developed for their investors owned rivals. Co-operative Relationship Departments face the needs created by that vacuum.

Lets explore briefly one example of mixing paradigms. Many values driven managers in investor-owned business have sought ways to make the workplace more meaningful and satisfying. Such ideas as Quality Circles and other forms of employee participation have been developed to make the workplace more productive through employee input and involvement. Many managers driving such initiatives also understand that simply allowing employee's input (let those who do the work tell you how the work is done) boosts morale and increases job satisfaction. Sometimes it is even talked about as more worker 'control' over the workplace. This being said, these ideas can best and often only be sold in an investor owned business by pointing out that they lead to higher productivity, increased innovation and higher returns on investment. Typically, Fredman notes a massive 2002 Gallup survey showing that in 'high employee engagement firms' employee-retention is up 1.44 times the norm, productivity 1.5 times higher and profitability 1.33 times higher. For an investor owned firm these are the noteworthy findings.<sup>8</sup> The Co-operative Bank in the UK would be interested in those numbers too but, operating out of a co-operative paradigm, they would also be interested in whether or not workers families believe they are "able to achieve a satisfactory balance between work and (my) personal life".<sup>9</sup> In the long run, should investor-owned firms fail to achieve the objective of increased returns, Quality Circles and other innovations will be abandoned and in many cases the workers who provided valuable insights that contributed to the bottom line will be fired. They are essentially tools of human resource management.

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<sup>8</sup> Fredman, op cit

<sup>9</sup> Co-operative Bank, Manchester, UK, *Partnership Report 2002* ([www.co-operativebank.co.uk](http://www.co-operativebank.co.uk)) Page 36

A business based on co-operative values and principles offers an alternative foundation for such innovations. The best thinking and motivation behind employee participation techniques are perfectly at home in a worker-owned co-operative. There, based on the co-operative paradigm of human dignity, employees can be transformed into participating workers. (See following paragraph.) The purpose of the firm is no longer in tension with the values underlying worker participation. The purpose of the business is at home with the ideas of participative management. Moreover it is less likely to be an experiment that will be ended at the first hint of a recession or one that will turn sour as participative employees' ideas are used to make the workers surplus and cost them their jobs. Co-operative managers have the task of balancing their multiple bottom lines.

So why do all co-operatives not use such enlightened practices such as worker participation? There are several answers. Co-operatives that are structured on solely meeting consumer needs often have difficulty making the shift from seeing 'employees' to seeing 'participating workers'. There is a long history of those who have seen the workers only in terms of meeting consumer needs and not as having their own needs that are also being met by the co-operative business. Where, one might ask, is the mutual self help when a group of consumers are not able to perceive that those working in their co-op are meeting their creative needs, their need for sustenance, their need for security, etc. Clearly it is one business meeting the differing needs of two different groups of people. Co-operative thinking and perhaps our values and principles and how we implement them need some further evolution.

During the mid-eighties the Mondragon group had a policy on modernization. A modernization plan was not permitted to leave any of the co-operative's workers without work. The plan had to include gaining market share, diversifying the product line, setting up a new co-operative, or some other initiative to ensure that modernization did not hurt workers. The purpose of the co-operative and the co-operative paradigm ensured that the process of modernization would be different. Did this inhibit the Mondragon co-operatives from diversifying? On the contrary, they were and still are close to or on the leading edge of technology in their businesses.

But let's step back and look again at the quality circles. To bring such an idea into a co-operative demands careful thought. Do the values that underlie quality circles conform to co-operative values? There is an obvious fit with much of the thinking behind quality circles and the thought behind co-operatives. How complete is that fit? If quality circles led to a 1% reduction in return on investment, would that mean they would be discarded? Perhaps, but not necessarily. A co-operative might say, 'we will accept a lower rate of return as long as it does not fall below X% and meets our needs for financial stability and future investment.' A co-operative quality circle might implement an idea that lowered return if it could find a balancing 'other bottom line' justification. In a co-operative, the idea of human development, enrichment and satisfaction can be just as powerful a reason for action as improved financial performance.

In other words, quality circles, as an idea imported into the co-operative paradigm, should be carefully thought through so that it does not undermine but rather enhances the co-

operative paradigm. A **‘co-operative circle’** ought to be a far more powerful idea, a far richer idea. It can only become so when it is thought through in terms of the co-operative values paradigm. It may be helpful to think of co-operative values and principles, the co-operative paradigm, as the ‘foundation’ under the ‘co-operative building’. The shape and robustness of the foundation determines what we build – its shape, its height, its weight, etc. No thoughtful or reasonable builder would erect a building without regard for the foundation. Yet co-operative managers and boards often do just that. They import plans developed for someone else’s foundation and proceed to build with no regard for the shape and characteristics of their own foundation. Co-operatives import such ideas because they are there and because they worked for someone else. They import them because they have not learned the value of their own formidable co-operative foundation – a foundation shaped by trial and error over hundreds of years.

The purpose of this all too brief exploration of the ideas underlying ‘human resource development’ and employee ‘engagement’ in decision-making was to suggest that how co-operatives ‘import ideas’ and how they apply co-operative values and principles to their business practices, need to be subjects for reflective thinking and thinking outside the box. The rewards and challenges of cooperative businesses ‘living their paradigm’ underline the need for the emergence of co-operative relationship management.

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