

Co-operatives and Federations

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The federation aspect of co-operatives was on the agenda at the turn of the century, and is here again today. The reason for this is that the environment of the co-operatives is changing fast and the co-operatives themselves are facing big challenges which they have to adjust to. In this article I focus on the federation aspect of co-operatives, and the challenges and problems of federate organisation. This aspect is also expressed in the 6th ICA principle, "Co-operation Among Co-operatives". The principle says that "Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, regional and international structures".¹

What are federations?

Co-operatives are member owned and governed organisations formed according to certain principles. We also have other types of member-owned and governed organisations, like mutuals, partnerships, voluntary chains and joint ventures. Together they belong to a family of member-based organisations that we may call economic associations or federations. They are formed when two or more actors join in creating a common unit to promote common interests on contracted issues while keeping autonomy on others. The federation consists of both the member units and the common unit, and tries to combine and balance the particular with the common interests through the power or control relations. This makes it different from networks or looser alliances, where the members contract or make treaties, but do not form a common unit to take care of the common activities. It is also different from a hierarchy where all activities of the original members are fused into a centrally governed organisation.²

We may generally talk of co-operatives as federations. In this article I will focus more explicitly on the federative aspect of co-operative organisation. This aspect is introduced when primary co-operatives unite to form a secondary co-operative, or secondary co-operatives form tertiary co-operatives, etc. On the other side, to better understand the federative aspect, we

have to have a closer look at federations more generally.

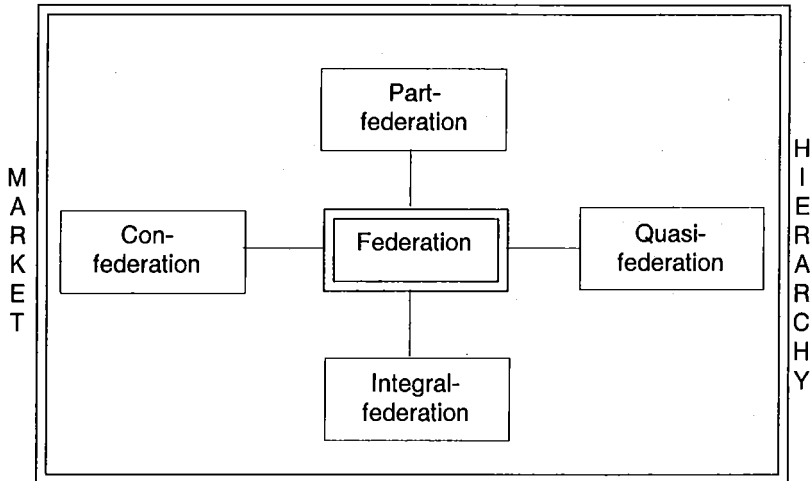
The federation *concept* is relatively unknown and little used in organisational research. The concept is primarily used in political science and constitutional law, about federal states like India, Switzerland or USA, and this is also reflected in dictionary explanations of the word. But the concept is more general than this, and we find federations in different spheres. We may distinguish between political federations (between municipalities, regions or states), social federations (voluntary associations) and economic federations (economic associations). We may even talk of a general federative *principle* of organisation.³

The concept of federation may be traced back to the Latin word "foedus" which means association. This is further related to the word "fides" which means trust and binding assurance.⁴ We know of political federations from ancient Greece represented by the different leagues of city states. Switzerland is the oldest political federation today, with more than 700 years of history. The Medieval guilds started as voluntary social associations, but were gradually transformed into a combination of both economic and social associations that played a central role in the society. Different voluntary associations also play a central role in modern societies, and the co-operatives are a good example here.⁵

Different types of federations

We have a more general federation concept and some principles, but we do also find different types of federations. Most authors that use the concept do not distinguish between the different types and then lose some of the nuances. There are two central dimensions of the organisation of federations. The first is the power and control relations that emphasise the role of the members versus the common unit in the federation. The second dimension is the depth in use of federal organisational principles. Combined, these two dimensions give us five different types of federations.

Figure 1. Different types of federations



A *con-federation* is a formalised alliance, consortium or league between two or more parts, where the member units in principle have total autonomy and power, except for what they voluntarily and unanimously have decided in common. The members have the right to veto decisions and to exit. This is similar to Provan's⁶ concept of participatory federation where the affiliates or members maintain an active role in the management of the federation. This is a type of organisation that preserves the autonomy of the members, but is rather slow in making decisions.

The integration between units often starts as a con-federation, but may over time shift into a more regular *federation*. This type has a clearer balance of power between the common unit and the members. Here the member units have transferred more power and control to the common decision and management unit through the making of majority decisions, but they still have the exit option. Provan⁷ has called this an independent federation. Many associations are organised as regular federations.

A third type of federation is what we may call a *quasi-federation*, or what Provan⁸ calls a mandated federation. This is a type where the common unit has more power and ability to control member units, though they still have substantial autonomy. It may be in the form of franchising arrangements,

hindrances or strict rules on exit, monopoly power, etc. This may be the result of voluntary adjustment, state legislation or role of a third party. Agricultural co-operatives in some countries are still of this quasi type.

Further, the depth in use of federal principles in an organisation may vary. Many federations are federations of federations, or *multilevel federations*. This means that the federative organisational form is used at both local, regional, national and even international level. Different associations are formed this way like Chinese boxes.⁹

Organisations that are not federations, but private or public hierarchies (or entrepreneurs) may also form a federation on one level for one or more functions. This could be the holding company level as in SAS, where three national companies form a consortium at the Scandinavian level, or the R&D or sales functions for a group of companies organised through a joint venture. This creates a *part-federation* between otherwise non-federative organisations.

The deepest form of federative organisation is what is called an *integral federation*.¹⁰ This is where both the economic, social and political sphere are federatively organised on different levels in a community or society. Co-operatives fall partly in here because of their dual nature both as a social group and business enterprise.¹¹ The Medieval guilds or the Mondragon co-operative are examples of the more integrated type.

Together this gives us a typology of federative organisations that is more useful than an uncritical and general use of the concept federation. This typology also makes it easier to understand the dynamics of federations.

Federations as a form of governance

Through history mankind has developed different instruments for coordination and control of economic activities. The basic principles are, according to Polanyi¹² reciprocity, redistribution, householding and market. The principle of householding is still important in modern societies, but is less significant than in many primitive and traditional societies because functions have been transferred from the household to other arenas. The principle of redistribution has taken the form of both public and

private bureaucracies or hierarchies. But the principle of market first became significant in the nineteenth century. It has further increased its role in recent decades. Reciprocity has in the modern societies taken more and more the form of social and economic federations.

Within institutional theory there has traditionally been a strong focus on the dichotomy between market and hierarchy. Coase¹³ made a distinction between market and firm (hierarchy), a distinction that was further elaborated within the economic theory of organisation (transaction cost theory) by Williamson.¹⁴ He regarded federations and other intermediate forms as unstable and that over time they would transform to one of the two other stable forms. In the 80s there was a growing interest in mixed forms, like networks, alliances and joint ventures, which have been grouped under the heading of the hybrid form.¹⁵ In a more recent article by Williamson¹⁶ this hybrid form is regarded as more stable, and it makes up a third generic form of economic organisation. Market, hybrid and hierarchy are, then, three organisational forms that use different coordination and control mechanisms and have different abilities to adapt to disturbances.

The federation is a better representative of the third form of governance than networks, strategic alliances or the hybrid form. It is more genuine and is not only a mixture of the market and hierarchy forms, but has its own rationale. This rationale is democracy through member ownership and control of the organisation, and the questions of trust, mutuality and co-operation are fundamental.¹⁷ Compared to the markets and hierarchies knowledge about federations is nearly non-existent.

The federation aspect of co-operatives

The federative system among co-operatives arose at the turn of the century. After a phase of establishing the co-operative movement and the primary co-operatives came the time for the development of a federative structure. Primary co-operatives in a region or a whole nation, came together and formed a federation to take care of common interests. The federative structures in many areas soon became relatively powerful units that could influence or even shape the co-operative system.¹⁸

In 1938 Carr-Saunders, Florence and Peers wrote in their

book on "Consumers' Co-operation in Great Britain" that

The most important step in the history of the consumers' movement, after the founding of the Rochdale type of society, was the setting up of federal organisations controlled, not by individual members, but by consumers' societies. The modern evolution of the movement is steadily increasing the importance of the federal undertakings, in regard both to trade done and, in the case of the national wholesale societies, to their influence on the economic policy of the movement as a whole.¹⁹

In the last 10 to 15 years these federative structures have been put on the agenda again. The fast changes in the international economy and big shifts of policies in most western countries have affected these structures, and their form and role has now been put into question. Schediwy put it this way

For a long time these ... co-operative federations have been quite successful agents of modernisation and of service to the consumers and the producers. However, in recent years they have been showing serious problems, notably in increasingly competitive environments ... Consumer co-operatives have ... been most exposed to fierce competition and ... may exemplify future trends for other sectors ... moving from a relatively shielded and regulated economy to more standard competitive environments.²⁰

This is also expressed by Bööck's analysis of the transformation in the Swedish Consumer Co-operative in the beginning of the 90s:

The basic and essential problem above all was located to the federative system as it was built up in Sweden. The eighties had more clearly than before demonstrated some weaknesses of that system, as the steady expansion of the national economy had stopped, as more co-operative societies had economic troubles and as the intensified market economy started to demand more rapid decisions and adaption.²¹

The federative system had grown to "a heavy and costly

administrative machinery with doubled functions between local, regional and union levels",²² increased difficulty with coordination and joint consolidation; mutual trust had decreased and internal price policy was seen as an obstacle to economic efficiency. The result was a clearer split between the business and association part of the co-operative system, and the members became owners through the association of a co-operative holding company. This represented a shift towards a quasi-federative, or even a more outright hierarchical form of organisation.

On the other side they also focused on a revitalisation of member participation through the different member roles. The customer role is normally carried out in the shops, which were intended to be more active meeting places. The owner role is taken care of through a simplified democratic organisation, and the member role through more involvement in consumer issues.

Much of these changes in Sweden were modeled after the change that had happened earlier in Italy. The Italian movement has two legs, the member organisation and the business organisation, which are more clearly separated than in most countries. The members elect the representatives in both organisations. On one side is the member organisation, very active in co-operative community social issues like consumer policies, health, environment and participation, while the business organisation can concentrate more on its own adjustment to the market.²³

In other European countries the consumer co-operatives have gone through even greater transformations than in Sweden. We have witnessed changes not only from federations to quasi-federations, or shifts to hierarchical or market forms of organisation, but also outright collapse of parts of the whole co-operative system. In Germany a supermerger of the weaker parts of the consumer co-operatives into Coop AG ended in a disaster with criminal overtones in 1989. In France in 1985/86 the four strongest regional co-operatives took control of the federation, drove the weakest regional co-operatives into bankruptcy and dismantled the federation. The federative system was replaced by super-mergers in Konsum Austria in 1978 and Finnish EKA in 1983, and in 1995 Konsum Austria became the biggest bankruptcy in that country since 1945.²⁴

Built on his study of Danish dairy co-operatives Sögaard²⁵

also concludes that in the long run federative systems cannot survive, because one partner will "take over" at the expense of the other partners. Dairy Denmark came to this position, in the same way as some of the capital city co-operatives (Stockholm and Vienna) in national consumer co-operative systems. This underlines the size problem in many co-operatives, when quite unequal members make up a federation.

Schediwy even expresses a strong doubt about the future of the federative organisations.

Today, however, we must ask ourselves whether the federative principle is not encountering serious difficulties at the end of the century at whose beginning it ... [was] established as an integrative structural factor for many organisations of the social economy.²⁶

The life cycle of federations

To further underline this Brazda and Schediwy²⁷ have developed what they call "the life cycle of a federative movement" based on studies of co-operative development. In the first phase, there is an ideological or charismatic movement with an authentic sector-solidarity that establishes a federative system. In the next phase, the ideological base is weakened and the bureaucratisation increased. Internal rivalry and conflict of interest are emerging. In a further phase, the dominance of the business logic breaks through and undermines solidarity. The growth of stronger member units, super-mergers and/or break aways changes the power balance and function of the federation. The end result is establishment of one or several hierarchical structures and/or loose co-operation on market terms.

Schediwy also openly recommends transformation of co-operatives. His conclusion regarding the problem of federation is,

that at least in some cases the courageous step towards a holding company type of model should be taken. That is a type of organisation that allows local and regional autonomy on the primary co-operative level, but which gives a central institution a decisive hierarchical authority over co-operatives

in the case of economic difficulties and decisions that have to be co-ordinated on a central level.²⁸

This recommendation will imply a transformation towards at least some form of quasi-federation, but more probably into a true hierarchy and by that changing the form of governance.

The theory about the transformation of federations supports Williamson's earlier view that federations are unstable and over time will transform into a more stable market or hierarchy form.²⁹ On the other side, most of these transformed or collapsed federations existed for nearly 100 years. This supports Williamson's more recent theory that they are more stable forms.³⁰ Further, not all co-operative federations have got into trouble and transformed. An interesting question is why the Swedish co-operative system had to go through such dramatic changes while the rather similar Norwegian system kept the traditional federative structure. Today the big consumer co-operative movement in Norway is very competitive and is taking market shares in a very tough market.³¹

Maybe the problem in many of the troubled co-operative systems was not the federative system itself, but the opposite. Maybe the viability of the federation in an earlier form had been violated. Maybe other options exist than just dismantling and transforming the federative structure. The co-operatives are put to a hard test around the world, and the federative and democratic structure of co-operative systems may survive into the next century, but the question is how and in what shape.

The future of co-operatives and federations

There are two main schools of thought for further development of co-operatives and the federative aspect in an economy with increased competition and change. The first is what we might call the "economists" or "transformists" that focus on the business side and efficiency of the co-operatives. Their prescription is increased integration and hierarchisation through some holding company form of organisation that will abolish the co-operative and federative structure.³²

The other school is what we might call the "democrats" or "traditionalists" who focus on more participation and democracy

as a way to vitalise the co-operatives and make them more competitive in a market economy. They will preserve, as well as modernise the co-operative and federative structure.³³

Maybe transformation to a holding company, or other forms of hierarchy is the solution for some co-operatives in trouble, but then they will often cease to be co-operatives. In the study of the British consumer co-operatives by Carr-Saunders and his colleagues, they underlined that the future of co-operatives is dependent upon viable federations.³⁴ Brazda and Schediwý's study of the postwar development of the consumer co-operatives,³⁵ showed that they were right, because most of the federations that got into trouble already had lost their viability. But how to create and keep viable federations? Here we have a lack of knowledge because the research on federations has been rather weak.

Jönsson³⁶ strongly accuses the federations of many of the problems that we have seen in co-operatives in the last decades. On the other side, he admits that there is a lack of empirical research and theory about the organisation and development of federations. A better knowledge of the federative aspect of co-operatives and other associations is needed, and of the federation as a form of governance compared to other forms.

Some principles of a well functioning federation may be extracted from the literature,³⁷ like shared goals, relations built on trust, operational interdependence, subsidiarity, relative equality in size, and dialogue and discussion of norms and goals. When some of these principles are broken, federations will often get into trouble. On the other side, we have seen that the federation concept is more complex and perhaps also more robust than often realised.

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Notes

1. MacPherson 1996:1
2. Warren 1967; Provan 1983; Johnstad 1992; Swartz 1994
3. op cit

4. Davis 1978
5. Johnstad 1992
6. Provan 1983
7. *Ibid*
8. *Ibid*
9. Dahl 1970
10. Kindsy 1974; Roemheld 1992
11. Bonus 1986
12. Polanyi 1944
13. Coase 1937
14. Williamson 1975
15. Powell 1987; Borys and Jemison 1989; Thompson et al 1991; Williamson 1991; Lorange and Roos 1992
16. Williamson 1991
17. Johnstad 1992
18. Schediwy 1993
19. Carr-Saunders et al 1938: 272
20. Schediwy 1993: 16
21. Bök 1995: 226
22. *Ibid*: 226
23. Jönsson 1993
24. Brazda and Schediwy 1989 and 1994; Schediwy 1993 and 1996
25. Sögaard 1990
26. Schediwy 1993: 20
27. Brazda and Schediwy 1994
28. Schediwy 1993: 24
29. Williamson 1975
30. Williamson 1991
31. Sivertsen 1996
32. Schediwy 1993; Jönsson 1993
33. Craig 1993; International Joint Project 1995
34. Carr-Saunders et al 1938
35. Brazda and Schediwy 1989
36. Jönsson 1993
37. Lipset, Trow and Coleman 1956; Davis 1978; Jordan 1986; Jonnergård 1988; Johnstad 1992; Swartz 1994

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