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Participation in co-operative firms: Theory, measures and impacts[1]

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1. Introduction

The paper contributes to the discourse on employee participation, and its impact on organizations. In particular, we look at co-operative[2] firms as special cases of participatory organizations, and describe the total participation approach (Prokopowicz et al. 2008) as a natural fit for an underlying concept in measuring co-operatives' organizational effectiveness. We then describe a tool based on the total participation theory to measure the degree of participation and its impact in organizations, and compare it to the refined version, anchored in the co-operative principles and values.

The paper draws on two streams of literature-one on participation and evidence that ownership and control by employees result in increased productivity, individual motivation, and organizational efficiency, and two, literature on co-operative firms and an increased interest in co-operatives as ethical businesses. We describe some aspects of participation relevant to co-operative firms, and proceed to discuss the importance of finding the appropriate framework to evaluate co-operative effectiveness.

The paper is organized as follows: In Section two we discuss the literature on participation in organizations, and place co-operatives within this framework. Section three outlines measures and indicators of performance of co-operative organizations, while Section four describes the Total participation theory as a framework fitting co-operative firms. We describe the co-op index tool based on the theory of Total participation, and compare it to existing tools created for other types of organizations. Section five concludes.

[2] Co-operative firm's essential features are that ownership is defined by user-transactions with the firm (employment, consumer, or other), rather than capital shares, and voting rights are divided equally among members. See Jones and Kalmi 2008, for example.

2. Participation

The literature on employee participation is vast and varied. The different treatments of participation depend on the field of research, the type of participation scheme(s), and the outcomes under study. Heller et. al. 1998 give a detailed account of this literature. The reasons for support of participation, authors argue, range from humanistic (personal growth and satisfaction of employees), to power-sharing (redistribution of social power), and organizational efficiency[3] (predominant concern in the economics and business literature). The authors categorize the main dimensions of participation to be ownership, degree of control, range of issues, and organizational level of employee influence (table 1.3. p. 19). In all four categories, worker co-operatives are placed at the extreme: worker-members are full owners; they make decisions on all issues from compensation and investments to management selection; the degree of control is complete self-management; and they function at all levels, from individual, through group and plant, to company level. In general, co-operatives hold a place in the literature as the special case of full participation. We therefore approach our brief review of the literature on participation highlighting this application.

As a management strategy, many firms have attempted to transform their workplaces to "empower" the employees, give them more autonomy, invest in training, provide job security, etc. in an effort to improve organizational efficiency and, thereby, firm competitiveness (Heller et al, p 12). For co-operative firms, autonomy, education and training, job security, broad job descriptions and wide responsibilities, listed by

[3] In the context of our focus on co-operatives, we would argue that the first two aspects of participation may be at the hart of people's motivation to opt for a co-operative form of organization, while the efficiency motivation can be viewed as an *ex post* concern for co-operatives, and a question of their viability and survival.

Heller et. al. as the necessary ingredients for participatory workplaces, are all rooted in the co-operative principles and values, and therefore form an integral part of the co-operative organization, by definition.

In the economics of participation, the focus has been on firm's ownership and control structures. Ben-Ner and Jones, 1995 set the stage for treatment of employee participation in (neoclassical) economic theory. Under the premise that ownership implies the right to control, and the return rights, they develop a typology of firms according to different allocations of those two rights. Within this framework, control of the firm implies decision-making and determination of objectives of the organization, as well as the position of individuals within it, while the rights to returns include financial and physical gains (wages, profits, output quality and price, working conditions and the like). They develop a chart including four levels of return rights, and four degrees of control rights, starting from no control and no return rights by employees, to the dominant control and majority return rights by employees. As is often the case in similar treatments of the distribution of employee influence in organizations, on the one end of the spectrum stands the "conventional" firm, and on the other extreme lie the co-operative firm.

Generally speaking, ownership of capital shares does not necessarily produce control rights in organizations (see Heller et al 1998 for example, p33). When there are some control rights, the rights to return need not be granted, and vice-versa. A number of authors point to the evidence that a mix of two types of rights (or, multiple participation schemes) are the most effective in terms of the impact of participation on the measured outcomes in organizations[4] (Ben-Ner and Jones 1995, Heller et al 1998).

Ben-Ner and Jones, 1995 state that employee participation affects productivity in organizations *via* individual motivation, and *via* structural variables. Authors postulate that return rights need not produce increased motivation and productivity if there is a free rider problem, but the overall impact is small in either direction. Return rights on their own may have conflicting effects on the overall organization. Looking at control rights in the absence of rights to returns, authors highlight the importance of the degree of control, as well as the issues over which employees exercise control in an organization. Overall, increased control (and, therefore, autonomy) will likely have a positive effect on organizational productivity, if participation is meaningful and individually rewarding, i.e. the benefit of participation to an individual employee is greater than its cost. The authors also suggest that increased control rights imply increased access to information and strategic decision-making for employees. In the absence of other incentives (return rights), increased degree of control by employees may negatively affect overall organization's performance. Therefore, they conclude that a combination of full rights in control and returns[5] will produce the most impact on both the motivational aspects (individual level) and overall effectiveness (organizational level). In the interest of accuracy in the assessment of its impact, studies of participation need to include both

[4]In the economics literature, the measured outcome is typically productivity. If productivity increases, firm's earnings are positively affected as well. While it would be desirable to make the connection between various participatory schemes and firm's profitability, this is difficult as participation is also costly, potentially reducing the rate of profit. See a discussion in Ben-Ner and Jones 1995, for example (p.549).
[5]Present in worker co-operatives, for example.

types of ownership rights (control and returns), and they need to investigate both the psychological and economic[6] variables (Ben-Ner and Jones 1995).

While in economics the focus is on the ownership aspect of organizations, organizational psychology recognizes that, for employee ownership to exert influence on group and individual outcomes, formal ownership must lead to psychological ownership, and this then leads to behavioral effects (Pierce et. al. 1991). Prokopowicz et. al. (2008) and Zmuda et. al. (2008) go further, to develop a framework of “total” participation which includes the (learning and developing) individual, the organization, and the wider environment in which the organization operates.

The total participation approach is interesting for co-ops from the perspective of measures of firm performance and effectiveness. The term effectiveness (see Prokopowicz et al 2008, and Richard et.al. 2008) indicates the approach to organizations with multiple stakeholders in mind and with a long term perspective. This kind of approach was first proposed by Erdal (1999) in his study of three Italian towns, each with different degree of “cooperativeness”. These studies were further supported by epidemiological data from societies of different level of egalitarianism (Wilkinson & Pickett, 2009). Organization’s effectiveness, thus, includes its performance from the point of view of immediate stakeholders, which captures its financial performance, market performance and shareholder return. Effectiveness also includes the impact on wider stakeholders, both inside and outside the organization (see Richard et al 2008, p 3) both from short and long term perspective; a concept which calls for both “objective” and “perceptual” measures, as well as subjective opinions of the insiders (Prokopowicz et. al., 2008). While economics literature discusses efficiency and productivity (i.e.

[6] Individual motivation and performance, and organizational performance in the presence of participation.

organization-level outcomes), and business textbooks treat participation as a human resource management issue (e.g. Armstrong, 2008, Kaplan & Norton, 2004), the total participation approach recognizes the multiple levels of organization's effectiveness, namely its effect on an individual and his/her growth, effect on the organizational goals such as viability, and effect on external stakeholders who may or may not take part in the decision-making process.

These elements of organizational impact have been present in the literature on co-operative firms, particularly in the context of the co-operative principles and values, the co-operative difference, and discussions about the role of co-operative firms in communities. It is well understood in the literature that co-operatives have their social purpose entwined with their economic goals (see Birchal 2005, for example). Defining that connection, and linking it to organizational success, has been a challenge. The fact that co-operatives belong to many subcategories[7] did not help focus on what is specific to co-operatives and how they can best take advantage of their distinctiveness. Rather, the literature on co-operatives is dispersed across many fields of research, and among numerous categories of organizations, therefore impacting the disjoint approach to policies affecting the co-operative sector.

In our view, the key difference for co-operatives lies in the internationally recognized, and widely accepted co-operative principles and values (ICA 1995), which form ethical underpinning of co-operative businesses. It is therefore critical that the

[7] Co-ops are democratic organizations; they can be non-profit; they belong to the social economy (the "third" sector) because they have social goals; they are often a part of community economic development programs; they are self-managed; they create jobs; they are often small businesses, to name a few characteristics.

performance and effectiveness of co-operative organizations be measured against those principles and values.

3. Cooperatives, performance and indicators

As stated, co-operatives are guided by the principles and values, most recently defined by the ICA 1995 Statement of co-operative identity. In case of worker co-operatives, the list of seven ICA principles can be expanded to include participatory management and the integral, but subordinate role of capital, among others (eg. Mondragon's MCC operates on ten principles of co-operation).

Literature on the performance of worker co-operatives has often addressed economic measures, namely efficiency and productivity (Craig and Pencavel, 1995, Bonin, Jones and Putterman, 1993, Bartlett et.al. 1992, and others). In economics, the focus has often been on the relative scarcity of the co-operative form of organization, and conjectures in the mainstream (neoclassical) economic literature that this must be, at least in part, attributed to their relative inefficiency[8] (Ben- Ner 1984, Hansmann, 1996). The focus in economics remains, therefore, on the causes of co-operative firm's inefficiency, and on empirical measures of their productivity and efficiency relative to investor owned firms. Potential problems for co-operatives, recognized in economics and business literature, are the agency and free riding problems, lack of financing when resorting to member-finance and debt finance, inefficiency due to the lack of an "objective" market measure of firm

[8] "Radical" writers have attributed the scarcity of co-operatives in market economies to the lack of support due to ideological bias, and to the hostile institutional environment for the development and preservation of the co-operative firm (Doucouliagos, 1990).

value in the absence of publicly held stock, and so on[9]. Numerous empirical studies were developed over the years to look for evidence in support of the theoretical claims made in 1960s. Among the empirical studies examining the relative efficiency of co-operatives are Craig and Pencavel (1993) who look at the plywood industry in the USA, where co-operatives and IOFs co-existed in a competitive industry. They conclude that the evidence does not support the co-op inefficiency hypothesis. This conclusion is mirrored by Parliament et. al. 1990 for dairy co-operatives, Bartlett et. al. 1992 for Italian construction co-operatives, and other studies. Bartlett et al find that co-operatives are more efficient than the IOFs, and produce a healthy industrial relations[10] environment. Parliament et. al. compare co-ops and IOFs on the financial indicators, to find that there is either no marked difference between the two types of dairy producers, or that co-operatives perform better than the investor-owned competitors.

While there is some evidence to the contrary (Porter and Scully 1987, for example), empirical literature mostly does not support theoretical predictions of inefficiency, employment instability, and non-viability of co-operatives, to name a few "problems" indicated in theory (see Jones and Kalmi, 2008 for a discussion). Co-operative sector has mitigated some of the potential problems, such as under-capitalization, by the institutional design, but a lot of questions about their relatively scarce occurrence remain. Plywood co-operatives in the US have disappeared in the decades since Craig and Pencavel's study. While inefficiency was not the reason for it,

[9] See Dow 2003 for an exhaustive account of this literature.
[10] This type of outcome is also supported by the Erdal (2000) study in two Italian communities, with and without a large co-operative presence. According to Erdal, presence of a large co-operative sector translates into positive externalities and social outcomes such as less crime, better education, better health, and higher social participation.

according to the results of their research, there are clearly other issues facing co-operatives and their environment that need to be addressed.

Parliament et. al**.** 1990 acknowledge that additional measures of performance (besides the financial indicators) are required for co-operatives in order to capture their social functions and non-market activities**.** As a result of their finding that co-ops outperform the IOFs on a number of financial indicators, they pose an interesting question- is this result actually good for the co-operative sector? Could this be a sign that co-operatives move closer to the investor owned firm behavior in order to meet the financial goals set by the competition?

To address the issue of tradeoffs between the financial and social function of co-operatives, Schwab (2005) developed a 'profitability range' framework of financial reporting to ensure co-operative success, in terms of both the financial and social returns. He argues that profitability is an imperative for co-operatives, as a matter of survival[11]. To fulfill their social mission, co-ops must be financially sound, so profit is a constraint for co-operative firms. However, Schwab advocates the use of a profitability range ("La fourchette de rentabilite") as a guide in decision-making. According to Schwab's approach, co-operatives would operate on a rate of return between the lower bound, which ensures financially sound operations, and the upper bound, which ensures that the co-op satisfies its social mission (i.e. it is not making too much profit).

This type of debate leads us to our questions-how can co-operatives maintain their values-based identity, and compete in the market economy? How can they set their own performance standards to judge their success? Besides the obvious survival and viability indicators, possibly based on Schwab's rate of return measures, we believe that co-

[11]Profit is a means to the social goal, rather than a goal in itself, as is the case in IOFs.

operatives need tools to tie their strategy and measures of performance to the co-operative principles and values. Stocki et. al. total participation framework[12], we argue, lends itself to such a function.

4. Worker cooperatives and total participation

Worker cooperatives[13] form a special case when it comes to participation, given their mandate of job provision and decent employment, and their participative nature. Typically, member participation in decision-making is the highest in worker co-ops, because the stakes for employees are also very high. This type of a co-operative fits the descriptions in the employee-participation literature, outlined above. While other types of co-ops may include various degrees of employee participation in decision-making (multiple-stakeholder co-ops), this is rare and it belongs to a less obvious, case-by-case classification[14].

Stocki and his colleagues have developed a tool to measure participation in organizations (Open Index and Non-profit Index for investor owned and non-profit firms, respectively; Stocki 2005, 2006) based on their cognitive theory of total participation, described in Prokopowicz et al 2008, and Zmuda et. al. 2008. The tools include a questionnaire whose focus is on perceptions, as well as researcher's observations, data collection, and interviews within the firm. It therefore encompasses the perceptional

[12] Described in Prokopowicz et.al 2008.
[13] We make a distinction between worker co-ops, owned and managed by workers-members, and producer co-ops, such as those in agriculture.
[14] This does not necessarily mean that Total participation framework is not relevant in these cases; it just means that benchmarks and expectations may be considerably different from those in worker co-operatives.

aspect, as well as the objective and subjective aspects of a firm's performance[15]. The questionnaire is divided into sub-categories that measure individual perceptions about the conditions, systems and effects of participation in the organization, and the impact on organizational effectiveness (Zmuda et al. p. 22). The tool captures inter-dependence of the environment in which an organization operates, organization's systems and the extent to which they are conducive to various forms of participation, and organization's effectiveness on the individual level (Żmuda et al., 2008). Figure 1 in the appendix illustrates main elements of the Total participation model, from which the tools were developed. The model should be read backwards from right to left, starting with the effectiveness. The employee may take initiative for the good of the organization at his or her expense (alienated), or may take initiative for his or her good at the expense of the organization (narcissistic). Personal initiative requires defining common good – a good for both the organization and the individual. We assume, however, that those actions result from different orientations – totalistic, individualistic and participative, respectively. The orientations are results of interplay between environmental (including organizational) influences and individual features which are created in the process of sense-making. The environmental and individual characteristics, participative orientations and results are measured in the Open Index tool (Stocki 2005). A measure of trust, and a measure of organizational maturity are also developed for diagnosing and reporting purposes. These measures are based on responses to selected personal questions. Since Open Index was developed to diagnose the participation levels in an organization, and help its management to evaluate and develop a strong participation

[15]As suggested in Richard et al. 2008

strategy, its application would, presumably, lead to the overall positive impact for the organization.

Co-operatives, on the other hand, are guided by ethical values[16], organizational values[17], and the principles of co-operation[18]. The difficulty with co-operative management is that there are no tools that clearly link the daily operations of the firm to the principles and values. Therefore, co-operatives often find it difficult to effectively communicate and manage the appropriate information about competitive pressures, financial pressures, changing member preferences, or other influences that may affect their strategy.

The process of adapting the Open index for co-operative firms lead to the development of the Co-op Index tool (Figure 2 in the appendix), which, like its predecessors, relies on the questionnaire for perceptional measures, observations and assessment of documentation for objective measures, and interviews for additional subjective accounts of the evidence of organizational effectiveness. The tool was created with input from practitioners and consultants in the co-operative sector, as well as researchers in various fields (management, sociology, economics, and organizational psychology). The Co-op Index questionnaire contains close to 170 questions sorted into 30 dimensions, which are then grouped into four categories - organizational systems, organizational climate, personal attitudes and actions, and overall effects of the organization (individual, organizational and societal levels). A description of those

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[16] Personal ethical values: honesty, openness, social responsibility, caring for others.

[17] Co-operative values: mutual self-help, equality, equity, self-responsibility, democracy and solidarity

[18] Voluntary and open membership, democratic member control, economic participation, autonomy and independence, education and information, cooperation among co-operatives, concern for the community and (added) concern for the environment. MCC worker co-operatives also add the subordinate role of capital, social development, social transformation, participatory management, pay solidarity, and labour control.

categories is given in the appendix. The same questions can be regrouped into the principles and values[19] categories. The Co-op Index added a few dimensions, which capture the co-operative difference. Environment and context for the organization gained the organizational principles and organizational values. These values are linked with individuals through a concern for common good, while individual ethical values are the foundation of the relationship between members in a co-operative organization. Participative orientation is embedded in the democratic governance and control, and other co-operative principles, while participatory practice in co-ops also includes learning through a continual process improvement, coupled with the implicit inclusion of all the stakeholders[20]. Lastly, compared to the Open Index where effectiveness is measured on an individual level (Stocki 2008), the Co-op Index includes measures of all levels of effectiveness-individual, organizational, and societal. This distinction is important as a measure of co-operative "social responsibility" – it is embedded in daily operations, rather than a function of profitability of the organization.

5. Conclusions

Employee participation is widespread in organizations. As a management strategy to improve organizational performance, it varies in degree and in type. In the economics of participation stress is on ownership and control, and therefore the various degrees of returns and decision-making rights. In this context, co-operative firms lie in the extreme because of their unique, value based characteristics (also termed the "co-operative

[19] This modification provides the "missing link" for co-operative organizations, but it can also serve as a benchmark for the co-operative sector and other organizations.
[20] This is true in theory, and is also captured by the Co-op index. In reality, co-operatives can easily turn away from stakeholder concerns under various pressures. This is why measuring and reporting the perceptions and reality of co-op's impacts is critical in maintaining the co-operative difference.

difference”). This paper argues that Total participation theory (Stocki 2005,2008), rooted in organizational psychology, creates a better fit for co-operative firms in light of that difference.

From the perspective of measures of firm performance and effectiveness, total participation approach offers elements that would constitute a benchmark, or an ”ideal” co-operative firm. Echoing concerns in the co-operative sector, we argue that co-operatives need tools that would allow them to incorporate co-operative principles and values into their strategy, as well as their daily operations, and to do so requires ways to measure the degree of adherence to the principles, as well as identify areas in need of improvement.

The paper describes the Co-op index as one such measure - a tool developed within the worker co-operative sector, based on the total participation approach, which is used to diagnose key areas of co-operative performance linked to co-operative principles and values. Perceptional aspects integral to this tool (and to discourse on participation in organizational psychology, generally speaking) are accompanied by subjective measures of performance, and data collection, as required. While tools for other types of organizations have been developed based on the total participation approach (Zmuda et.al 2008) some key differences in the structure of the Co-op Index have emerged, such as:

-measures of organizational effectiveness that capture individual growth, organizational goals, and social goals

-inclusion of organizational principles and values in the tool’s structure

-link between organization and individuals through ethical values common to both (based on the ICA 1995 statement of co-operative identity)

-inclusion of the impact on stakeholders.

This and similar efforts to capture the "co-operative difference" have to be made by the co-operative sector in order to measure and improve on their performance rooted in the co-operative values and principles. This element has the potential to add quality to the products and services offered by the sector, differentiate co-operatives as participatory democratic organizations, and identify co-operative social responsibility as an integral part of co-op long-term strategy.

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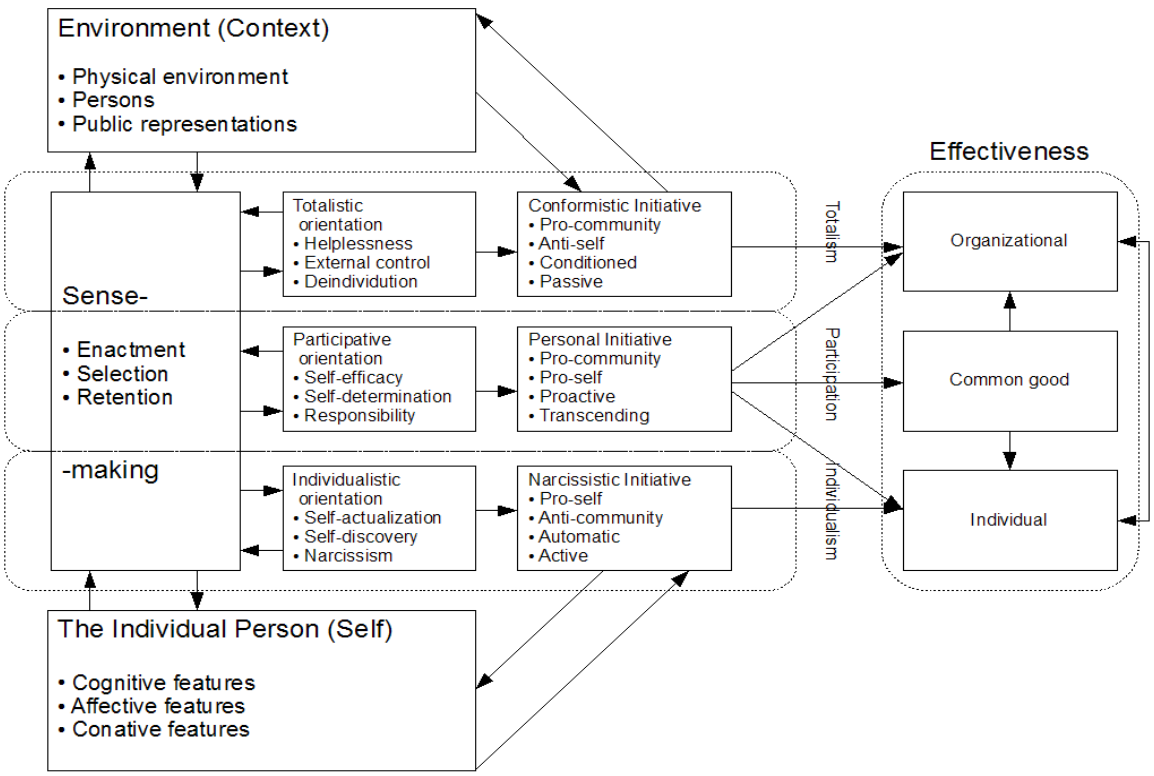
Appendix

Figure 1. Total participation model. Source: Zmuda et.al. 2008



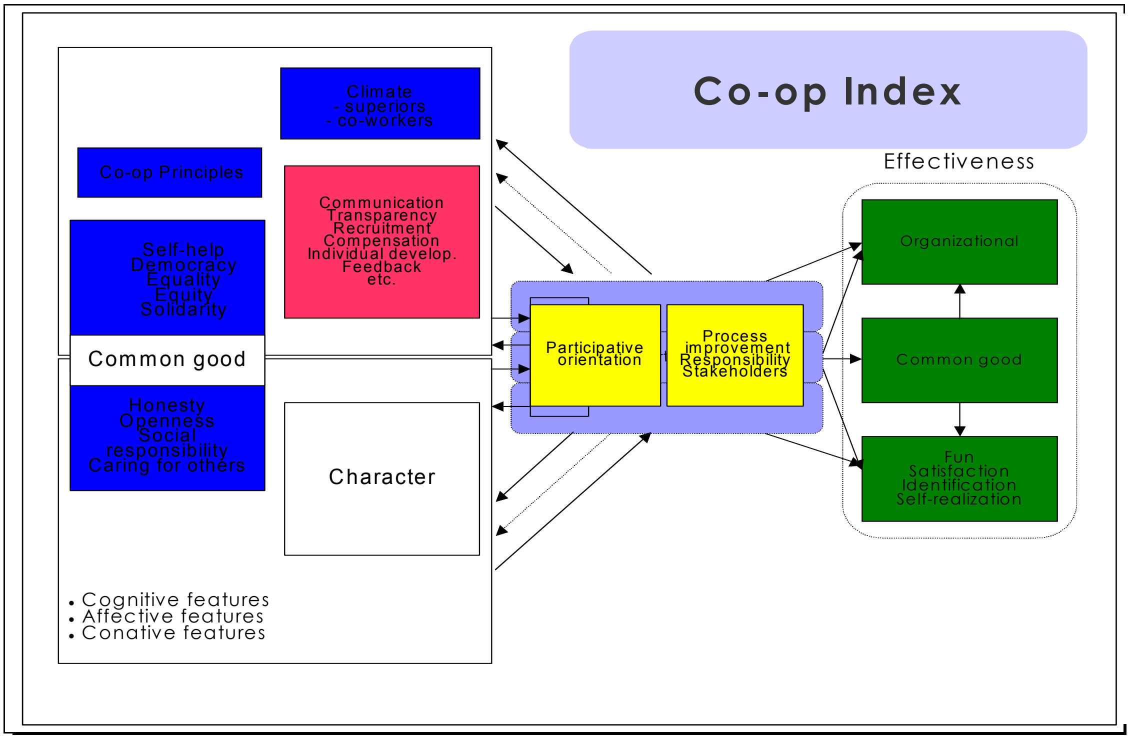


Figure 2. Co-op index model. Stocki 2008

Co-op Index

	Dimension	Content description	Impact
1	Communication systems	Questions relate to ease and efficiency of internal communications.	**Organizational systems**
2	Development of co-op members	Includes both member professional development and governance (i.e. Board member development)	
3	External relations	Customer and supplier relations.	
4	Feedback systems	Individual and organization's performance, peer evaluation, and other evaluation systems.	
5	Innovations	Product innovations, process innovations, and social innovations.	
6	Remuneration	Pay and benefits satisfaction; fairness and equity.	
7	Processes	Relates to individual understanding of tasks, roles/functions, and processes in the co-op. It includes job safety and independence.	
8	Personnel policies and recruitment	Questions fairness and satisfaction with recruitment and membership.	

9	Strategy	Questions about vision, strategy, growth, and member participation in creating the vision for the co-op.	
10	Transparency	Availability and clarity of information about decision-making and challenges.	
11	Leadership	Respect for co-op leadership	**Organizational climate**
12	Mutual respect	Overall sense of respect among co-op members	
13	Participatory decision-making	Sense of inclusion in decision-making	
14	Trust -leadership	Trust in co-op leadership.	
15	Fun	Sense of humour, friendliness and enjoyment at work.	
16	Relations with co-workers	Organization's culture; getting along with colleagues.	
17	Trust-members	Trust among co-op members and employees.	
18	**Participatory knowledge**	Co-op business literacy.	**Personal attitudes and actions**
19	**Ownership**	Stress on the perception/sense of individual ownership and responsibility as a member.	
20	**Process improvement**	Personal initiative and accountability.	
21	**Responsibility**	Personal ethics and responsibilities.	
22	Identification	Identification with the co-operative organization and sense of job security.	**Outcomes: individual, organizational, societal**
23	Satisfaction	Job satisfaction and overall work relations satisfaction.	
24	Self-realization	Questions self-fulfillment at work, professional development, as well as balance between personal and working life.	
25	Independence	Independence from external influences in decisionmaking- both public and private.	
26	Products/services	Relates to the quality of the products/services and impact of co-op principles and values on products and services.	

27	Viability	Business viability from the market access perspective, financial perspective and organizational/functional perspective.	
28	Cooperation with other co-operatives	Networking with other co-operatives and development of the co-op sector.	
29	Community	Concern for community development and role of the co-op in its community.	
30	Environment	Environmental sustainability, care for the environment and leadership regarding environmental concerns.	