

# Autonomy and Independence— What's Up with Principle Four?

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## Principle Four: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy. —International Cooperative Alliance, Statement of Cooperative Identity (1995)

**C**ooperative principle four: Autonomy and independence. What do you think about it? Or perhaps a better question is—do you ever think about it?

In my consulting practice, I sometimes lead activities designed to get people thinking and talking about cooperative values and principles. I'd never accuse my clients of having forgotten a cooperative principle, but based on the lack of interest, perhaps principle four is being taken for granted.

The International Co-operative Alliance (ICA), which is tasked with stewardship of the values and principles, puts a lot of effort into reviewing and periodically revising them. Before principle four was added in 1995 revisions, some smart and wise cooperators consulted with thousands of cooperators around the world to get a wide-ranging and comprehensive view of the challenges in the cooperative world. The updated principles and values that we are currently using, including principle four, came out of that process. Surely they saw value in adding this principle.

This spurred me to learn more, and this article is an outgrowth of that. I look at some of the history behind principle four and then at the ICA's "Guidance Notes" on it. Finally, I provide some thoughts on the relevance and use of principle four in our grocery co-ops in this era of intense competition, mergers, and consolidations inside and outside of the co-op world.

### Rochdale rules

Cooperatives in many forms existed around the world before Rochdale, England, in the 1840s. But the Rochdale Pioneers found enduring success with their cooperative, in part, because they took the time to articulate, debate, and document their principles.

During that same period, British society was experiencing an erosion of personal autonomy and independence. As industry shifted from farms and home-based craft to industrial operations, personal trading and town-square market economies were challenged by industrial production and the growth of mercantile stores, often owned by mill and factory owners. Workers in the factories and mills were sometimes paid in chits that were only redeemable at the company-owned stores, creating a dependency that kept workers locked in exploitive jobs in order to repay debts to the company stores.

In addition, there were societal divides based on religion, politics, wealth, and gender. Recognizing the injustice of this, the Pioneers established a number of principles to ensure their cooperative treated its

members fairly. These included:

- **Fixed and limited interest on capital** kept the wealthy from unduly profiting from the labor of others and also prevented those with the greatest investments in the co-op from wielding outside influence. It was a pragmatic principle—earlier cooperatives had offered no interest, which was a barrier to gaining the capital needed for the survival of those co-ops.

- **Cash trading** prevented the unhealthy dependency the company stores created, and it also was a pragmatic way to ensure their co-op had adequate cash to keep goods stocked.

- **Political and religious neutrality** was included to foster a "practical tolerance." Although intended to allow membership growth with few barriers, it also prevented the co-op from aligning itself, or being unduly influenced by, political and religious organizations.

These principles and the thinking behind them inform our current principle four in two significant ways: 1) by recognizing that concentrated capital can be an unhealthy force that co-ops must protect themselves from, and 2) that cooperatives must take a pragmatic rather than dogmatic approach to upholding their values within capital-based economic systems that make it difficult to raise the capital needed to run our cooperatives successfully.

### 1937: unity and division

As the cooperative movement grew through the later 19th and early 20th centuries, the Rochdale Pioneer's principles were adapted by many different cooperative organizations to reflect their varying sectors, sizes, types, and national regulations. In advance of the Congress of Paris of 1937, the ICA worked to establish a set of principles applicable to all co-ops.

The ICA Congress settled on four principles:

- open and voluntary cooperative membership,
- democratic control by members,
- limited interest on owner share capital, and
- patronage refunds for distribution of earnings.

The principle of neutrality was relegated to a working rule and was considered optional. This may have happened in recognition of the British Co-operative Party. Cooperators in Britain had established the party out of frustration with the lack of respect from the upper-class government leaders, who were either ignorant of or threatened by the primarily working class cooperatives, which had achieved quite a bit of economic clout. Though the Cooperative

Party had some limited success, it upset a number of more conservative cooperators and was not aligned with the principle of political neutrality.

There were also threats to co-op neutrality in countries where co-operative development was spurred with government involvement. Although there were successful co-ops in those countries, there were also instances where the governmental involvement remained when it was no longer needed, and those co-ops were not truly controlled and owned by their members. Their production and assets were, in some cases, subject to seizure by the state.

By the late 20th century, the increasing dominance of investor-driven businesses made life hard for some co-ops, and the increasing need for capital created situations where ownership and/or governance structures that were counter to the established co-operative ways were considered and in some cases adopted. This was observed by the ICA membership, and by 1995 they decided that neutrality could no longer be considered implicit and needed to be returned to the principles. Thus, principle four came into the fold.

#### Relevance for our co-ops

The ICA “Guidance Notes to the Co-operative Principles” begins its section on principle four by acknowledging that when this principle was added in 1995, it was primarily focused on the relationships between cooperatives and national and international governmental organizations. It goes on to say that principle four also applies to how cooperatives raise capital and to the relationships between co-ops and their suppliers, customers, and national cooperative federations.

As businesses that are operated to increase shareholder wealth have become more dominant, co-ops are both more important as an alternative and more endangered. However, co-ops’ adherence to patronage-based profit distribution and limiting interest as a means of rewarding members places a burden on them. In the highly competitive marketplace, the need to grow and improve is imperative, but that requires capital. Capital is more freely acquired through speculative stock offerings, but that also increases risks to autonomy and independence.

Vehicles such as an initial public offering (IPO) and venture capital allow larger investor-shareholders increased influence over the businesses they invest in, even if they may not actually patronize those businesses. Even the more modest effort of borrowing from banks can come with risks to independence, such as greater influence over operations or the desire to place a bank official on the co-op’s board. While the need for capital is real, co-ops must keep control in the hands of their members in order to maintain autonomy and independence and not endanger their co-ops.

The emergence of new financial tools based on crowd-funding, the direct public offering (DPO) in particular, can help by offering a means to raise capital from a large and diverse audience without affecting control of the co-op by the membership. The use of credit unions, cooperative banks, and cooperative loan funds as an alternative to conventional banks may also help. These cooperative capital sources can be a buffer between our cooperatives and the more predatory financial marketplace, and strengthening cooperative sectors in support and supply roles to other co-ops is always a benefit.

There is also a risk to principle four of over-dependence on a very few large customers or suppliers. Dependence on one or a few large customers is less of an issue for food co-ops than for producer

and agricultural co-ops. On the supplier side, food co-ops mitigate risks by purchasing from a large number of local suppliers and by working within the purchasing agreements negotiated by National Co+op Grocers (NCG) on behalf of its members. These purchasing agreements increase co-ops’ leverage with those suppliers and create more favorable negotiating positions than any of our co-ops would have on their own. We are truly stronger together.

Strong apex organizations like NCBA-CLUSA, NCG, and other national sector organizations help give cooperatives a voice with government and regulators. Our position within our current capitalist system is not favorable, but it could be much worse without respected organizations working for our cooperatives’ needs and fighting against regulations designed to benefit shareholder-driven competitors at our expense.

#### Educated leaders and continuous practice

There are two other points I found interesting in the ICA commentary. One is that we need to have strong and skilled leadership from our general managers and boards. As the document states: “There is no greater risk to autonomy and independence than insolvency caused by poor governance and bad management.” The ICA believes the solution to this is found in principle five: education, training, and information. Directors, who, unlike management, are generally not career professionals in their board roles, need to be continuously studying, learning, and listening to members.

The last point I’ll take directly from the “Guidance Notes”: “The Co-operative Principles do not stand in isolation from each other. They are interdependent principles that support and strengthen each other. For example, Principle Five on Education, Training, and Information will, if applied, strengthen and enhance Principle Two on Democratic Member Control. If all the principles are observed and applied in the day-to-day operations of a co-operative enterprise, that co-operative enterprise will be stronger and more sustainable.”

What does all this mean? Innovate, collaborate, learn, and listen to our members. Always act in their best interest and be true to our cooperative values and principles. These principles exist for sound reasons, and understanding those reasons can help apply them effectively in a variety of situations. And the pragmatic intent of the Pioneers, which the ICA maintains today, allows co-ops to consider strategic options in the quest to be competitive and successful. We must choose the options, however, that keep our co-ops democratically controlled and firmly and fairly in the hands of our owners. •

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