

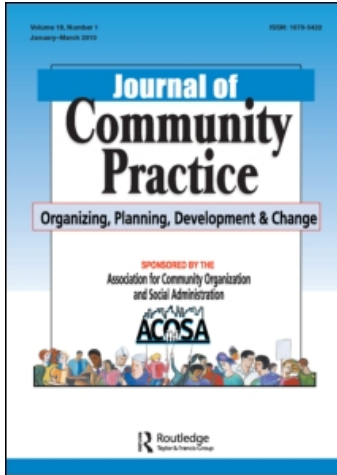
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Cooperatives and Community Development: A Perspective on the Use of Cooperatives in Development

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Community developers have long understood the importance of local participation in the events and processes that shape communities. Effective, democratic, and people-and-place-centered development strategies have the potential to achieve such participation. This article suggests that cooperatives can be an effective participatory strategy to bootstrap low-income people into the socio-economic mainstream. Woolcock and Narayan's (2000) social capital and poverty transition model is adapted to demonstrate the development potential of cooperative businesses. We hope to stimulate discussion among community development scholars and practitioners, policymakers, and the public on the potential of cooperative business as a community development strategy, particularly in resource limited communities.

KEYWORDS *cooperatives, community development, poverty transition, social capital, capacity building*

INTRODUCTION

For the purposes of this article, we define a *community* as diverse groups of people who live in a commonly understood location or place. The place may be a neighborhood, a town/city, or a county. Some see *community development* as a process that helps a community to sustain itself

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socially, economically, and environmentally (Gertler, 2001; Ketilson, Fulton, Fairbairn, & Bold, 1992). Others see it as a cooperative attempt by local people to control the socio-economic destiny of a community (Nemon, 2000). Still others describe it as a process by which community members strive towards priorities or self-established goals, usually based on common geography, common experiences, or common values (Brown, 1997; Cabaj, 2004; Chaland & Downing, 2003; Nemon, 2000). However, although perspectives differ, there appears to be general agreement that community development within a community should actively involve community members and meet their needs.

Kretzmann and McKnight's (1993) *asset-based community development* (ABCD) focuses on identification and use of the strengths, gifts, talents, and resources that communities can mobilize for sustainable development. In combination, the work of Earnest (1996), Langone (1992), and Nemon (2000) identifies primary community development strategies as community control, local control of capital, local ownership, local hiring, downtown revitalization, business development, social enterprise development, and community leadership development. The core of these strategies is coordination of assets that already exist in the community to help community residents improve their socio-economic well-being by bridging local initiatives to external opportunities. We view community development as a process that mobilizes resources and builds the capacity of local residents to work together to improve social and economic conditions in their communities. In addition, we see cooperatives as a viable vehicle to accomplish these ends.

The Cooperative Business Form

Although people have been working together for their mutual benefit throughout human history, and the first recognized US cooperative, a mutual fire insurance company, was formed by Benjamin Franklin in 1752 (Zeuli & Cropp, n.d.), cooperatives became a recognized business form during the Industrial Revolution.

Because of this long history of cooperatives, there is a tendency to surmise that knowledge of cooperative principles and practices is, by year 2010, well ingrained in American culture. This is not necessarily the case (Wadsworth, 2001). Although cooperatives are widely used (financial services, production and distribution of energy, agriculture, home health care) and have been "responsible for many market innovations and corrections of market imperfections" (Deller, Hoyt, Hueth, & Sandaram-Stukel, 2009, p. 1), most Americans cannot describe what a cooperative is. For example, policy makers recently debated the possibility of adopting health insurance cooperatives (Obama, 2009; Pear & Harris, 2009). Media accounts were swamped with competing, contradictory, and often erroneous information on the

potential of health insurance cooperatives. To many people, this information was both unfamiliar and confusing as measured by the volume of inquiries and responses on the role cooperatives could play in health care reform (King, 2009; Kurgman, 2009; Reich, 2009; Sack, 2009; Underwood, 2009). Misconceptions about the cooperative business form added to the confusion.

Today cooperative businesses can be found in nearly all countries. There are more than 29,000 cooperative businesses in the United States, operating in almost every sector of the economy, including agriculture, childcare, financial services, health care, housing, employment services, food retailing, and utilities. Deller et al., (2009) found that US cooperatives employ more than 850,000 people, own over \$3 trillion in assets, and generate more than \$500 billion in annual revenue. They range in size from large enterprises, including US Fortune 500 companies, to single, small local storefronts.

Given the wide variety of cooperative businesses, it is not surprising that several definitions of a cooperative have been advanced in the literature. The United States Department of Agriculture defined a cooperative as a user-owned, user-controlled business that distributes benefits based on use. Fairbairn, Bold, Fulton, Ketilson, and Ish, (1995) viewed cooperatives as, "associations of people who have combined their resources of capital and labor to capture greater or different benefits from an enterprise than if the business were undertaken individually" (p. 21). The International Cooperative Alliance (ICA, n.d.), an independent, nongovernmental association that unites, represents, and serves cooperatives worldwide, defines cooperatives as "autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise."

Cooperatives are different from other forms of business because they are organized according to fundamental principles and values established by the ICA (Wadsworth, 2001; Zeuli & Cropp, n.d.). The principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community. In addition, "Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others" (ICA, n.d.). Cooperatives bring people together to meet a shared need through operation of a democratically controlled business. They train and educate their members (Fairbairn et al., 1995; Hoyt, 2004; Majee & Hoyt, 2009) and promote group effort to address individual and community needs. They create employment opportunities (Birchall, 2004; Casadesus-Masanell & Khanna, 2003) and build capital in communities where they are located. Today, many cooperatives throughout the world own extensive assets, hold significant

market share; and employ very large numbers of workers. Examples include the Mondragon Cooperative Corporation (MCC) in Spain; The Co-operative Group in the United Kingdom; Land O'Lakes, Nationwide Insurance, Group Health of Puget Sound, and Navy Federal Credit Union in the United States; and the Seikatsu Clubs in Japan.

Given the previous information, we adopt the ICA definition of *cooperative* and assume that cooperatives are: independent businesses owned by their members (as consumers, producers, or workers), designed to meet members' needs, open and voluntary membership organizations, democratically controlled by the members, the business, capitalized by members through direct investment and retained earnings. We also assume that a portion of net earnings are returned to member-owners based on the extent to which they patronize the cooperative (Birchall, 2004; International Cooperative Alliance, n.d.).

Cooperatives and Social Capital

Although recognizing that there are even more definitions of *social capital* than there are of *cooperative*, we use Putnam's (1995) definition that social capital is "features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (p. 67). From both individual member and business perspectives, cooperatives promote interaction. This interaction enables members to use their knowledge of each other and of the cooperative to engage in peer monitoring in their conduct of business. It helps to build trust among members and between members and their stakeholders which, in turn, strengthens the business and the community (Majee & Hoyt, 2009). Because cooperatives create economic, human, and social capital, it appears they might well be the first-choice business model for locally based, locally controlled community development.

In putting emphasis on social capital, the argument is not that the standard forms of capital (financial, human, physical and natural and environmental) are not important. Rather, the emphasis is that in addition to financial and human capital, people draw on social connections with other members of their communities for both social and economic goals. That is, social capital is not disconnected from other forms of capital.

Cooperatives and Community Development

Investigating the role of cooperatives in community economic development is certainly not a new phenomenon. Cooperatives have been talked and written about for over a century (Adams, 1888; Daniels, 1938; Majee & Hoyt, 2009; Marshall & Godwin, 1971; Roy, 1964). However, although scholars have long recognized the importance of many forms of capital assets (human, natural, physical, financial, social) in community development,

relatively few have articulated the role of cooperatives in building these assets, particularly in resource-limited communities. It has been argued that enhanced community networking can improve access to financial capital, political influence, and other resources that, in turn, sustain human capital (Gittell & Thompson, 2001; Kretzmann & McKnight, 1993) and that helping the poor use their social ties to access outside resources is crucial for community development (Woolcock & Narayan, 2000).

Several scholars have found that cooperatives' business structure allows them to be more society-oriented (Fairbairn et al., 1995; Wilkinson & Quarter, 1996; Zeuli & Cropp, n.d.). They promote development that is not only society-centered (Pieterse 2001) but is also democratic and people-centered (Burkey, 1993; Carmen, 1996; Ife, 2002). Cooperatives expand the ability of groups to participate in, negotiate with, influence, control, and hold accountable the institutions that effect their lives. This empowerment is achieved when community members work together and learn that they can rely on themselves and on their ability to act collectively to improve their personal circumstances and the well-being of their community (Hoyt, 2004). As people work together in a cooperative, they build up community identity, establish community norms, learn to trust each other, and commit to providing benefits for each other. Previously, we have found that cooperative development enhances community trust and networks, through which community residents can pool community economic, social, and political resources and access those from outside the community (Majee & Hoyt, 2009). And finally, several studies (Fairbairn et al., 1995; Majee & Hoyt, 2009; Zeuli, Freshwater, Markley & Barkley, 2005) have either described community economic development process as informed by cooperatives and/or showed how cooperatives can be used as a strategy to implement existing community development theories.

Based on the work previously cited, we view cooperatives as important vehicles for mobilization of local resources into a critical mass. However, what we do not have is a framework that can be used to bring the cooperative approach to the fore among community development strategies. There is need to develop a conceptual framework illustrating how cooperatives build trust, promote participation, and foster the creation of networks and economic benefits that help people transition from poverty to better well-being. This paper seeks to develop a cooperative social capital creation model that explains the potential impact that can be achieved using the cooperative business model.

In developing our model, we assume that individuals can achieve significant economic benefits from participation in cooperative business; that cooperatives need to be adequately capitalized and functionally successful as businesses; and that cooperatives have unique processes through which they foster the creation of social capital. We build on the social-capital and poverty transition framework developed by Woolcok and Narayan (2000).

SOME STAY BEHIND, SOME GET AHEAD: SOCIAL CAPITAL
AND POVERTY TRANSITIONS—WOOLCOCK AND NARAYAN
(2000) MODEL

Using a networks view of social capital, Woolcock and Narayan (2000) distinguish two types of social capital: bonding and bridging. Bonding, or horizontal social capital, refers to the strong social ties (networks, norms, and trust) that develop among like-minded or homogenous individuals or groups. These ties most often exist between family members or within close community groups. Several studies have found that people with limited resources draw on the opportunities provided by close group membership to survive (Holtgrave & Crosby, 2003; Majee, 2007). However, although a group with limited resources may be able to provide enough resources for its members to get by on a daily basis, there probably are not enough resources to enable the group to get ahead. That is, even high levels of bonding social capital in resource-limited groups will probably not be sufficient to provide significant improvement in a group's quality of life. Getting ahead requires access to opportunities and resources offered in other networks (Woolcock & Narayan, 2000). The networks, norms, and trust that develop among networks can be described as "bridging social capital."

The Woolcock and Narayan (2000), model (Figure 1) illustrates how stocks of both bonding and bridging social capital are necessary to lift a group from poverty.

At point A, socially and economically disadvantaged people leverage the bonding social capital of homogenous groups with strong familial or social ties to be able to do things they couldn't achieve individually. Woolcock and Narayan (2000) used the Grameen Bank of Bangladesh to demonstrate how the poor can rely on bonding social capital to move from destitution to getting by through borrowing money without collateral (Smith, 1997). To do this, small groups who had strong social ties used those ties as collateral for loans to individuals in the group to finance the creation of a small business. Once a member of the group received a loan, no other member could borrow until a regular repayment record had been established by the first borrower. Also, no repeat loans to an individual were approved until all member accounts were settled. Because all group members assume responsibility for loans made to each member, people only join groups whose members they believe are highly likely to repay their loans. Thus, the Bank relied on "the collateral of peer pressure." That is, bonding social capital enables families to improve their welfare (point B on Figure 1).

However, if the group continues to expand (for example, due to other people joining the group who are not as well known), economic returns to members may reach a resource and bonding capital limit (B) or decline (C). The area between points B and C illustrates negative economic returns

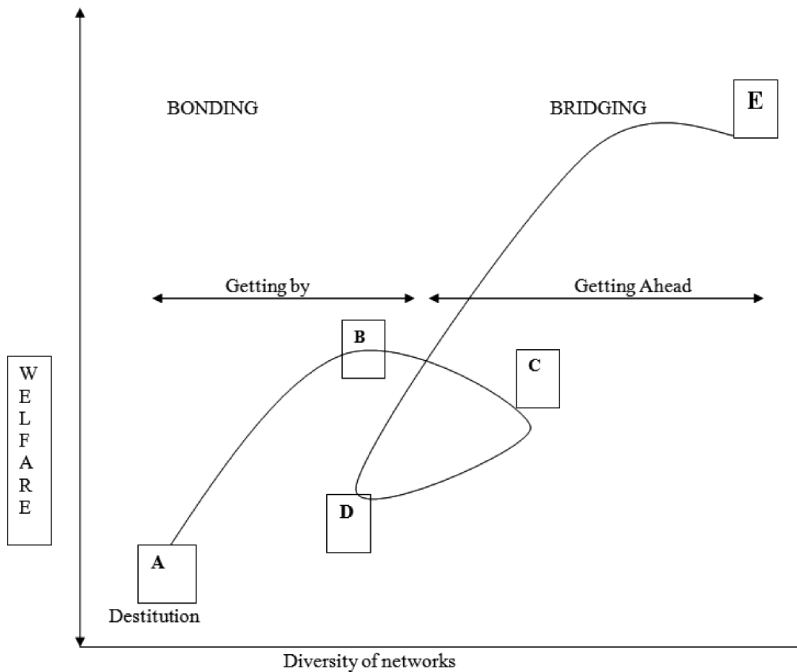


FIGURE 1 Social capital and poverty transitions (Woolcock & Narayan, 2000, p. 232).

for members of the group. As a result, members of the group may realize that the overwhelmed network presents barriers to their ambitions and further advancement. Faced with such situations, these individuals partially disconnect from their immediate community ties (point D), and seek more promising networks (moving from D to point E) which can help them get ahead (bridging social capital). Thus the model explains how individual group members move to desirable point E by leaving the group, presumably, at point B.

Where sustainable community development that enables groups to move out of destitution (e.g., “get by”) is the goal, the model illustrates how people can combine and share their assets to collectively improve their well-being, but are ultimately limited, as a group, in their ability to get ahead.

GETTING AHEAD TOGETHER: SOCIAL CAPITAL AND POVERTY TRANSITIONS—THE COOPERATIVE WAY

Our adaptation of the Woolcock and Narayan (2000) framework seeks to demonstrate the potential role of cooperatives to move groups (rather than individuals) from getting by to getting ahead (from B to E). Successful cooperative development, particularly in developing countries, suggests

cooperatives simultaneously strengthen group ties (bonding social capital) and connect the group of members with outside resources for their advancement (bridging social capital). In addition, because they are locally owned and controlled, cooperatives are place-based businesses that provide needed goods and services; assure employment opportunities for local people; give ownership of business to local residents; and foster business and social interactions with other businesses, both inside and outside the community (Majee, 2007; Majee & Hoyt, 2009).

The conceptual framework that follows suggests that, in addition to other strategies of community development, cooperatives may be an option that lifts groups, rather than individuals, out of poverty as a result of their ability to create and sustain bonding and bridging social capital for groups of cooperative members. In Timor-Leste, for example, *Cooperativa Café Timor*, an organic coffee producer cooperative with “22,000 farmer families as members, 300 full-time staff, and up to 3,500 seasonal processing workers” (CLUSA, n.d.) is improving the quality of life of cooperative members and the general population. With coffee exports, some to Starbucks in the United States, reaching \$12 million in 2008, the cooperative expanded to open health clinics (*Clinic Café Timor*) accessible to members and the general population in the coffee-growing regions (CLUSA, n.d.).

As U.S. Secretary of Agriculture Vilsack recently pointed out, “Cooperative ownership of business not only creates wealth, but also makes it more likely that capital will remain and circulate repeatedly in local communities” (Vilsack, 2010). Capital circulation in the local economy strengthens existing businesses, which in turn benefits the whole community. As the cooperative business grows, so does its capital base, including interaction among members, between members and other community members, and between the cooperative and other businesses. This interaction creates both social and business linkages connecting both individual members and the business with other networks. The framework is based on the following assumptions: Every society has some level of social capital that can be used to develop cooperatives; cooperatives strengthen existing bonding social capital while simultaneously building bridging social capital; and that both economic and social benefits result from participation in cooperatives. As in Woolcock and Narayan’s (2000) model, point A in our model signifies a period of low, but increasing, social and economic welfare, in which community members progress out of destitution by drawing on internal resources emanating from close community ties (i.e., bonding social capital). Community members are getting by on a daily basis. As the network grows and pools more resources, welfare increases. However, because the network is of a bonding nature, community members are limited to resources or connections within the network (see Figure 2).

When resources are overwhelmed, Woolcock and Narayan (2000) predicted that ambitious members will divest their immediate ties and move to

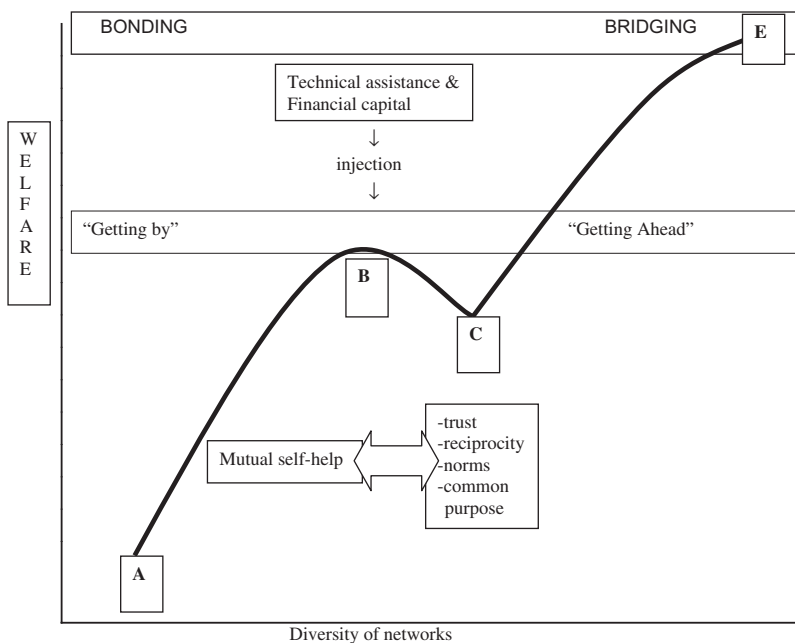


FIGURE 2 Cooperatives and the creation of social capital for socio-economic enhancement.

where they can access opportunities that help them to get ahead. We posit that this occurs because group members have no common group goals and the group, itself, has not been able to create bridges to outside resources that could accommodate its growth. Our framework adds value to Woolcock and Narayan's in that it allows for more people to get ahead as a cooperative instead of only more ambitious people, as argued in Woolcock and Narayan's model. This eliminates point D in Woolcock and Narayan's model. When people living in economically challenged communities have organized a fairly large number of networks that are providing enough resources so that they are getting by, they have developed levels of bonding social capital that can be used as a foundation for cooperative organizing (point B). It is at this point where technical and financial assistance can be effective in providing additional resources that can help community members to form a cooperative business (between B and C) well before the benefits from community ties are overstretched. In the United States, such assistance may come from several cooperative development centers supported by the Rural Business and Cooperative Service of the U.S. Department of Agriculture, some land grant universities, national cooperative trade organizations, or existing cooperative businesses. Internationally, cooperative development assistance comes from various United Nations organizations, national cooperative development organizations from a number of countries, and a wide variety of nongovernment organizations.

Organizing a cooperative requires significant commitment. The process of bringing together community members to “identify the opportunity, build consensus on the potential for a cooperative, develop trust among potential members, secure member commitment, involve other stakeholders, and start up the cooperative enterprise” (Henehan & Anderson, 2001) can be very time consuming and exhausting. Some potential members may enter into the venture just to test the waters; others make cooperative leaps of faith. In addition, returns to initial investment are not immediate (Henehan & Anderson, 2001). At this point during the incubation period, some participants, especially those less invested in the cooperative venture, may divest from these community ties resulting in negative returns to other potential members. “This is a potentially serious threat to cooperation, as such short-changing could gradually erode cooperation” (Roberts & Sherratt, 1998, p. 175).

The model assumes that although initial capital investment must be made during the prestart-up phase, financial returns can only be generated after the cooperative opens for business and generates earnings. This calls for members’ willingness to make financial sacrifices, and patience to wait for the expected returns as cooperative gains profitability. Because of these real cooperative development issues, the model acknowledges the fact that investment does not always result in immediate and successful ventures. Actually, evidence exists to show that newly established cooperatives can be prone to a number of unique business problems (Henehan & Anderson, 2001; Majee, 2007). Thus, the drop from C to D captures the potential obstacles to successful cooperative start-up that reduce or delay return on member investment.

At the same time, through training and interaction, potential members acquire skills that increase their confidence, ability to work, and participation in business and social activities. Over time, trust develops, problems are more easily solved, and quality of service increases together with investment returns. Thus, the community develops increased social capital during the cooperative organization phase. On balance, we allow for the possibility that welfare may stay static (point C) or decline (point D).

However, once the cooperative is operational and successfully providing goods and services, both the members and the community will benefit, as described. Hence, we arrive at point E on our model where the cooperative has provided an opportunity for all members to get ahead to the extent that they participate in the cooperative. Because cooperatives are open to all who can take advantage of their benefits, no individuals need be trapped in getting by. Also, because of open membership, cooperatives build economic activities that reach beyond familial and close social networks. Because they need critical mass to be successful, they essentially create bonds among numerous small social networks that share a similar product or service need. It’s the bonding of small networks into a coherent unit that creates an opportunity for group members to gain access to bridging social capital that is not available to them as individuals or as small isolated networks. The genius of

cooperatives is their ability to create businesses based on a common bond (for a need or service) that can negotiate for resources and build connections to groups outside the community need. That is, they are an organizing vehicle that creates both bonding and bridging social capital.

SUMMARY AND CONCLUSION

Economic and social welfare derive from social interactions between individuals in their homes, work places, and the community at large. Improvement in well-being is shaped by the nature and extent of social interaction among individuals. Formal and informal associations can mobilize assets and strengthen the social relationships that are important for growing local initiatives and bridging them to external opportunities. To create significant opportunities for transition out of poverty, society needs communities that “create wealth, are self-sustaining, retain their citizens and thrive economically” (Vilsack, 2010). Cooperatives, as democratically and community owned businesses, provide a first-choice model for such development, as they can play vital roles in achieving all four requirements mentioned by Secretary Vilsack.

Cooperatives have repeatedly proven useful for promoting the interests of less powerful members of society. They gather local people and pool their resources to gain power to participate in and influence market forces and community development. They promote community control, local control of capital, local ownership, local hiring, business and community leadership development, and the development of trusting relationships. However, given the fact that market forces are not always perfect allocators of limited resources, and that cooperatives appear to assist the economically disadvantaged population, policy changes must be directed toward organizing and developing cooperatives in resource-limited communities, to address old and emerging community concerns such as the provision of more and better access to health insurance, growing and selling of organic products, wind energy production, home care provision, and financial services for millions of rural community residents who are being squeezed out of most markets. Cooperatives have the potential to bootstrap far more people in low-income communities into the socio-economic mainstream than other business structures operating in these communities.

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