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The Involvement of Members in the Governance of Large-Scale Co-operative and Mutual Businesses: A Formative Evaluation of the Co-operative Group

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Abstract   This article focuses on the key question for co-operatives and mutuals of whether they can continue to be genuine member-owned and controlled businesses once they become very large. After providing a commentary on current attempts to revitalise member democracy in the UK consumer co-operative sector, it outlines the "mutual incentives model" developed by the authors to explain what motivates people to participate. The main part of the article then provides a formative evaluation of one very large co-operative society, the Co-operative Group. Drawing on a recent project carried out with funding from the Economic and Social Research Council, and in partnership with the UK Co-operative College, it discusses findings from datasets of 450 area committee members and a random sample of non-active members. The findings are structured according to the mutual incentives framework, including individualistic and collectivistic incentives, resources and mobilization factors. The conclusion is that the Group is having some success with its member participation strategy despite problems of scale. Steady, incremental improvements are identified that should enable the strategy to succeed, showing that there is no simple correlation between size and democracy.

Keywords: co-operatives, mutual incentives theory, size and democracy, stakeholder involvement

INTRODUCTION: SIZE AND DEMOCRACY IN MEMBER-OWNED BUSINESSES

When they are first set up, co-operative and mutual businesses tend to be small in scale and simple in structure. Their decision-making process tends to emphasize maximum involvement by members and the subordination of

boards of directors and management teams to the will of the members expressed collectively through general meetings. Through effective market penetration, extension into new markets, takeover of other businesses, or merger with other mutuals or co-operatives, they grow larger, sometimes much larger than their founder members expected. They may also grow more complex, with geographic division into regions or functional division into specialist types of business. A key question for co-operative theorists and practitioners alike is whether such large-scale co-operative and mutual businesses can remain true to the principles on which they were originally founded. Is it still possible for them to be governed by their members? If not, is it possible for representatives they have chosen effectively to govern on their behalf? One of the strongest arguments for the demutualisation of UK building societies has been that they are just too big and that an investor-owner model of governance will provide better oversight of boards and managers (Drake and Llewellyn 2001). When a hostile takeover bid was launched for the "CWS" (the UK's Co-operative Wholesale Society), one of the justifications for the attempt was that the co-operative had become too complex; the criticism was that it had become a conglomerate of several very different businesses which were poorly integrated, and its governance structure allowed for complacency among managers who effectively faced no sanctions against poor performance (Birchall 2000).

The purpose of this article is to explore this issue of size and democracy, and to draw some conclusions about whether, and under what circumstances, co-operatives can be both large and democratic. By size we do not just refer to the transition from a direct to an indirect democracy, or from a member-run business to a professionally managed one. These transitions are faced by co-operatives when they are still quite small, and are relatively well understood (see e.g., Dahl and Tufte 1973). Here, a *large organisation* is one that has developed to a level where most decisions are made by a management team and a board, and where members cannot be involved in day to day decision-making but can only hope to control the general direction of the business, and to call their elected directors and managers to account for their actions. There is no obvious point at which a co-operative becomes large, but a stipulative definition for a financial mutual or consumer co-operative might be when it reaches a membership of say 10,000 people. For other types of co-operative it might be much lower. The Mondragon worker-owned co-operatives are restricted to fewer than 500 employees. However, the system under which they work is much larger and more complex. Agricultural co-operatives might also be considered large when they reach say 500 members, but this also depends on the size of the business of each farmer. Another way to define large scale is

in terms of the kinds of problems that co-operatives face. Perhaps size becomes an issue at the point in the growth cycle where co-ops tend to lose touch with their members, unless their boards and managers decide to do something about it. A management strategy for participation is then necessary to preserve a meaningful level of member involvement in governance.

We address the issue of size by looking at its effects on democracy in both theory and practice. Theory tells us that size matters. In a large-scale mutual business the number of members eligible to participate in democratic structures is also potentially very large. Olson (1965) outlines three main arguments why this is important for democracy:

(1) The individual incentive not to contribute increases in large groups.
(2) The larger the group, the lower the value of a unit of the collective good to each individual is likely to be.
(3) The larger the number of people who must be co-ordinated, the higher the cost.

Gavious and Mizrahi (1999) suggest that mobilizing individuals may be easier for small groups than large ones. First, in small groups there are more chances that an individual will believe that he or she is the decisive player for collective success. Second, in a small group people recognize their contribution to the collective goal, their participation is appreciated by others and there are social pressures all of which strengthen group identity. Once participants have been mobilized, Hardin (1982) suggests that participation is also more likely to be sustained in small rather than large groups. He argues that "because the social psychology and social structure of small groups differ from those in large groups, one might expect that solidarity, moral suasion or strategic interaction would work to the advantage of small groups, but not large groups" (Hardin 1982: 40). Similar considerations arise in relation to the participation of members in small-scale rather than large-scale democratic organizations. For example, in a large-scale co-operative, one might question how easy it is for members to feel that their actions will be decisive, and how strong the processes are that together strengthen group identity. We might also ask how social psychology and structure differs, and whether this is to the disadvantage of large-scale mutuals as the theory appears to suggest. In sum, these theoretical observations lead us to generalize that the larger the scale of a democratic organization, the less likely its members will be to participate. How does the theory work out in practice? We assess this by looking at member democracy in the Co-operative Group in the UK which, with a turnover of £7.7 billions is one of the largest consumer co-operatives in the world.

WHO WANTS MEMBER DEMOCRACY?

Of course, size and complexity only become an issue if anyone cares about the changing nature of ownership and control. Certainly, the regulators of bona fide mutuals and co-ops have to pay attention, because they are charged with making sure that business organizations do not secure market advantages over others by hiding their true status, and that the custodians of collective assets are held in check by those who nominally own them. In the UK the Registrar of Friendly Societies (now subsumed under the Financial Services Authority) has begun to take the view that large co-operatives should update their membership records and prove that they are still co-operative societies. Co-operatives often have a more stringent regulator in the national and international federal bodies that they belong to; the recent overhauling of co-operative values and principles by the International Co-operative Alliance has made it more difficult for its members to avoid the question of who governs, and on whose behalf (Birchall 1997: ch.7). However, in the UK it has not been pressure from the regulator, or from a co-operative "movement" that has led board of directors and managers in the building society and consumer co-operative sectors to consider the question of size and democracy. It has been the threat of demutualization that has led to a new appreciation of the nature of mutuality, and a re-evaluation of the relationship between the organization and its members.

Building societies used to be rather complacent organizations, whose boards were able to govern themselves with little involvement of members, who tended to be involved only in very small numbers at annual meetings. In the context of a highly regulated and restricted market, this was not seen as an important issue. In 1986, the sector was deregulated, and gained the power to enter new markets, to compete with the banking sector, and to take more risks. Interest began to grow in how they were governed, and in particular in whether their status as membership organizations meant they were under less pressure than investor-owned banks to perform well. During the 1990s, most of the building society sector demutualized, nearly always with the active support of managers and boards who argued in favour of the move. However, around 30 percent of the original building society sector has survived repeated attempts at demutualization, one key factor being the determination of boards and top managers to argue in favor of mutual status. As a result, these survivors have begun to 'talk up' the idea of mutuality, emphasizing the benefits of not having shareholders who can take part of the surplus away from members. They are winning the argument by consistently out-performing their competitors on key indicators such as interest rate levels, and are gaining market share (Drake and Llewellyn 2001). Recent research

has shown that societies are still more trusted than the investor-owned banks, and they are beginning to devise management strategies to sustain the market advantages that such trust brings (Cook *et al.* 2001). There is still, however, a great deal to be done, and there is little scope for independent action by members that is not sanctioned by the board.

The consumer co-operative sector has a much better record for genuine democratic control, but with only a tiny percentage of members being involved. One study in the 1960s found that only one or two percent of members voted or attended an annual meeting, and few elections were contested (Ostergaard and Halsey 1965). However, size was not the problem: it was in the small societies where apathy had set in, while in the large city societies elections were contested by party political groups who kept the democratic process alive (though for reasons not connected to the consumer interest). During the 1970s, societies made the fatal mistake of abandoning the 'dividend' (patronage refund), and thus cutting the economic relationship between the members and their co-operatives. Membership rapidly lost its meaning to all but a few activists, while the process of mergers led to there being fewer and fewer opportunities to serve on a board. The excessive power of top managers was illustrated by the slow pace of mergers (most occurring when one society had become virtually bankrupt), and there were some spectacular failures in governance. By the late 1980s in some societies attempts began to be made to remedy the situation: new directors began to be offered training, member relations departments began to secure the resources to mount effective member recruitment campaigns, and the larger societies evolved complex, area-based democratic structures (Birchall 2001). But without a real dividend, it was difficult to persuade customers to care about being members.

As Cote says of co-ops more generally, they "had more difficulties than ever in distinguishing and differentiating themselves from privately-owned enterprises" (2000: 250). Cote talks of "the increasing difficulty of being a co-operative," in a world in which most members no longer recognize the double identity of ownership and use, and the significance of the redistribution of surpluses based on their transactions. When, through lack of education, not only members but also managers and employees become unaware of the nature of the relationship in which they are involved, then co-operatives will be emptied of content and the dominant paradigm—of the investor-owned business—will rule. However, during the 1990s co-operative managers began to realize that their competitors were trying to gain the advantages of customer loyalty by offering a quasi-membership in the form of loyalty discount cards and clubs. Then the attempted takeover of CWS in 1997 concentrated the minds of co-operative boards on the co-operative "difference". In order to

build up defences against takeover, some societies have begun to "clean up" their membership lists, removing members who are no longer alive or traceable to a local address. More positively, at least one regional society has begun to divide its membership lists up by type of member, and degree of interest in becoming active, devising innovative strategies for recruiting new members and integrating membership with other aspects of the business such as public relations and staff training. The recent Co-operative Commission has been influential, promoting the idea that there is a "co-operative advantage" stemming from being a membership-based organization (2001). Again, recent research has supported this proposition, showing how membership-based organizations can capitalize on this advantage (Spear 2000).

However, innovative strategies for member democracy stand or fall on what can be expected from participation. As the Co-operative Commisssion (2001: 39) observe, "successful co-operative businesses require a large and widespread membership that is supportive of the broad principles of co-operation and the participation of an active, informed and representative elected membership". In many large-scale co-ops and mutuals, participation has traditionally been "non-accelerating"; there are diminishing marginal returns (Oliver 1984) for active participation in decision-making and corporate governance, so that beyond a certain point new contributions produce smaller—or even zero—increments in the collective good. This leaves a few elected officers to attempt to serve the mass membership. In other words, once the various 'jobs' are being done, there is little marginal pay-off for participation, and free riding becomes likely. However, where this situation becomes acute and oligarchy sets in, there is the danger of losing touch with the 'masses'. In short, the traditional approach too easily becomes static, and underestimates the potential for member involvement.

Some co-ops in the UK are now identifying the need to mobilise a wider cross-section of their membership, particularly to ensure that currently under-represented groups (such as ethnic minorities and young people) are included (Co-operative Commission 2001). There is, however, a generally accepted view that large-scale co-ops and mutuals do not need "mass" participation. They need a small group of a few hundred active members who emerge from the membership, are prepared to interest themselves in the business, to stand for elections to boards, and to represent members in general. They need a much larger group to know about the organization, to develop some loyalty and pride in it, to have some appreciation of its distinctive values, to vote intelligently for their representatives, and to influence the co-op's policies (for instance, in the Co-op Group in persuading decision-makers to expand fair trade). They then need to keep in touch with the mass of members through market-research type

methods, but also by asking them to democratically endorse important decisions. This has led some consumer co-ops to target three types of member:

1 Those "true believers" who can be persuaded to train as potential board members.
2 Those who can be formed into a kind of 'supporters club' who believe in the aims of the organization and will participate through voting, attending annual meetings and social events, and supporting campaigns such as fair trade.
3 Those who believe vaguely in the values of the organization, will not participate, but are loyal customers and want to be kept informed and to have their views canvassed occasionally.

Elsewhere we have used this typology to present a more dynamic "umbrella strategy" for the promotion of member involvement (Birchall and Simmons 2001; see Figure 1):

Identifying the 'mobilisation potential' (Stage 1) may not be straight-forward for many large co-ops and mutuals. However, as we have said processes are underway in several of them, including the Co-operative Group, to update membership records. In this way, co-ops are able to regain a clearer understanding of their relationship with their members (though it has to be admitted, that the very large numbers involved make this a daunting task). This is a pre-requisite for the remaining stages, where a new, 'accelerating' approach to participation becomes possible with (i) the mobilisation of a wider cross-section of the membership around core values, and (ii) the rebuilding of institutional capacity.

However, while this model provides an overall agenda for promoting wider member involvement, there is a crucial underlying issue. Member democracy depends on the active involvement of members, but many co-operatives are worried about the willingness of members to participate. Members' motivations to participate are currently poorly understood, which has led to a growing feeling that it is time to "bring members back in" to the equation. A number of important questions arise, such as what galvanizes members to come forward to participate in governance, and what factors sustain their participation? Furthermore, in relation to size, how do members relate to an organization of the scale of the Co-operative Group? The Co-op Group's approach to mobilization and capacity building provides only one side of the story. In our research project we therefore take a more balanced approach, also examining members' perspectives on active participation, and in particular the key factors in members' motivations to participate.

STAGE 1	STAGE 2	STAGE 3	STAGE 4
IDENTIFY "MOBILIZATION POTENTIAL"	MAKE MEMBERSHIP MEANINGFUL	BUILD CONFIDENCE AND TRUST	REMAIN ACCOUNTABLE
1. Re-activate membership (update databases, etc)	1. (Re) establish democratic processes	1. Allow members time and space to reorientate	1. Make accountability central to corporate governance and strategy
2. Conduct member research	2. Provide good, clear, relevant information about the Co-op	2. Reinforce the values and benefits of mutuality	2. Reinforce the importance and value of member democracy
	3. Recruit/select "type 1" members to task-oriented roles	3. Resist temptations to use a participation strategy to "hard sell" to members	3. Ensure that democratic structures are continually renewed, and therefore remain legitimate
	1. Engage "type 2" and "type 3" members as creatively as possible	4. Engage widely and responsibly with the community	

Figure 1: An Umbrella Strategy for Promoting Member Involvement

WHAT MOTIVATES CO-OP MEMBERS TO PARTICIPATE?

The research project that we report on here is informed by a theoretical model developed by the authors over the last three years. To explain the approach, we have to make a few preliminary comments about how people's motivation to participate is seen in the literature. There is a controversy in social psychology between those who see people as innately competitive or co-operative (Argyle 1991). Twenty years ago, the debate was dominated by a paradigm in evolutionary biology that most behavior could be explained in terms of ''selfish'' genes (Dawkins 1976). This viewpoint has been modified by insights from game theory that suggest that under certain conditions self-seeking individuals can learn to co-operate (Axelrod 1984; Dawkins 1998). Sociologists emphasize the importance of habitual behavior, the growth of social solidarity, and resulting high trust relationships, in modifying the individual's calculation of utility (Birchall 1988). A similar controversy exists in political science, where ''rational choice'' theory proposes that rational actors will not participate in collective action to achieve common goals, but will ''free ride'' (Olson 1965). For Finkel *et al.* (1989), narrow rational choice explanations predict excessive abstention, and are better in explaining why individuals do not participate rather than why they do. Similarly, Whiteley and Seyd (1992: 59) argue that there is a need to ''consider a wider array of incentives...where the individual 'thinks' collectively rather than individually''. There have been various attempts to do this; for example Whiteley and Seyd (1998) combine social psychological and rational choice explanations in their ''General Incentives Model'', which, alongside selective incentives, features collective incentives, expressive incentives, altruism and social norms.

These controversies have informed our work. We draw on a range of sociological and political science theories to develop a ''Mutual Incentives Theory'' (MIT) of motivations to participate. MIT examines two general social-psychological theories of motivation that are both broader in scope and more detailed in their generalizations. The *individualistic approach* is developed from social exchange theory (Homans 1974; Blau 1964; Ekeh 1974; Molm 2000, 2003). It assumes that people are motivated by individual rewards and punishments, and provides a set of generalisations about how they interact (see figure 2).

The *collectivistic approach* is drawn from theories of co-operation (Argyle 1991; Mansbridge 1990; Van Vugt *et al.* 2000; Axelrod 1984, 1997) (see Figure 3). It interprets human behaviour very differently, assuming that participation can be motivated by three variables:
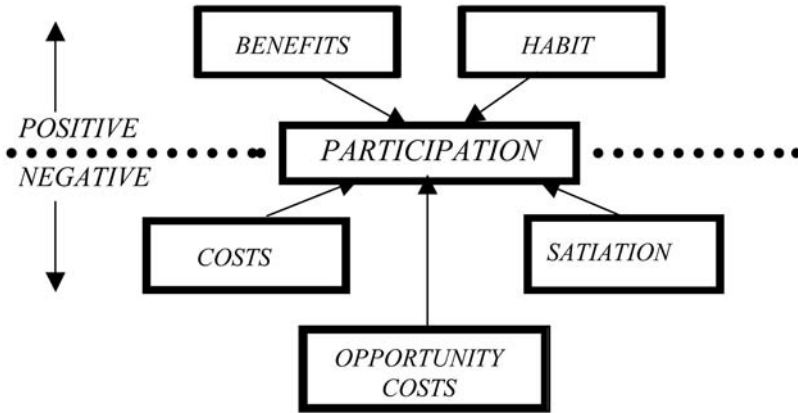
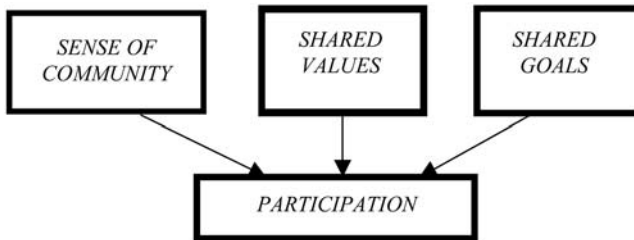*Figure 2:* Individualistic Incentive

Figure 3: Collectivistic Incentives

1   Shared goals: people express mutual needs that translate into common goals.
2   Shared values: people feel a sense of duty to participate as an expression of common values.
3   Sense of community: people identify with and care about other people who either live in the same area or are like them in some respect.

This approach generalizes that the more each of these three variables is present, the more likely people will be to participate. In our research the two approaches have been kept separate and tested alongside one another to allow a final interpretative framework to emerge from the data.

   The insights of Mutual Incentives Theory are important, but on their own they are insufficient to explain what makes people participate. MIT needs to

be linked to other potential explanations if we are to provide a more rounded interpretation. Whiteley and Seyd talk of incentive-based explanations as demand-side models, whereby incentives create a demand for activism. By contrast, other aspects such as personal resources and mobilization factors provide 'supply-side' explanations, which act to supply higher levels of participation; "a general model would incorporate both demand and supply side variables" (1996: 225). This leads us to propose a general model that we have termed the 'Participation Chain' (see Figure 4).

The model has a number of levels, or "links" in the chain. It expands upon the insights of Mutual Incentives Theory to take account of a number of important studies of participation in mainstream politics, interest groups, social movements, and voluntary work, as well as in public services. The first level includes the prior *resources* and capacities of potential participants (Verba *et al.* 1995), the next level their *mobilization* (Jordan and Maloney 1996; Lowndes and Wilson 1999). MIT then becomes the third link in the chain.

Size can have noteworthy effects at each of these levels, which triggers a number of important questions. Do issues of scale make members feel that their resources are inadequate to support involvement in as large an undertaking as the Co-operative Group? Do they mean that members find it difficult to identify with strategic governance issues, see the opportunities to participate as being too distant or remote, or find themselves isolated from recruitment networks? Do they weaken members' motivations to participate?

A FORMATIVE EVALUATION OF THE CO-OPERATIVE GROUP

This project builds on our ongoing theoretical and empirical work,[1] applying "Mutual Incentives Theory" and the "Participation Chain" model to mutual

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1 At a more general level, this project is part of an ongoing programme into what motivates citizens to participate in a variety of different circumstances. We are looking to extend the research into other areas in which people are being asked to participate in governance. In this way, the theoretical model can receive further validation and be extended to fit new circumstances. We are currently engaged in an action-research project, again in partnership with the Co-operative College, and funded by the West Midlands Social Enterprise Forum. This extends the research to cover some regional consumer co-operative societies and housing co-operatives. In July 2003 we begin a new project in the ESRC's Cultures of Consumption programme (ESRC project number 143-25-0040) entitled "Cultures of consumption and consumer involvement in public services". This will also extend our theoretical model of what motivates people to participate into new areas such as health care and leisure services. We are also planning to extend our methodology; the new ESRC project, instead of adding more datasets to our databank, is going to be mainly qualitative and to extend the three-stage theoretical model into a fourth stage, concerning the dynamics of participation, focusing on the interaction between participants, boards of directors, front-line staff and managers.
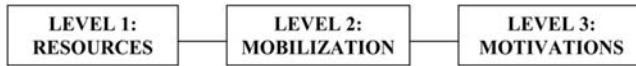
LEVEL 1: RESOURCES	LEVEL 2: MOBILIZATION	LEVEL 3: MOTIVATIONS

Figure 4: The "Participation Chain"

businesses. The project draws on datasets of active and inactive members of the Co-operative Group in the UK. Detailed findings from the project are reported in our final report to the ESRC (Birchall and Simmons 2003a) and a forthcoming article (Birchall and Simmons 2004). In this paper, we draw on the above data to make a "formative evaluation" of the governance structures of the Co-operative Group. There is a useful distinction between formative and summative evaluation. The latter is the more conventional type, in which the researcher sums up to what extent an organization has succeeded in achieving certain stated aims, usually through implementing some kind of innovative management strategy over a specified period of time. Formative evaluation can be carried out much earlier in such a process, not just to measure what has happened but to provide some guidance as to how the aims can be met in the next few years (see Patton 1997).

On the key question of whether large, complex co-operatives can involve their members in governance, the Co-operative Group is an important test case. First, it is very big. Formed in 2000 as a result of the merger of CWS (the biggest consumer co-operative in Europe, measured by turnover), and CRS (another national society), the Co-op Group is now one of the biggest consumer co-operatives in the world (Co-operative Group 2002). Second, because of its unique history, the society is also very complex. Founded in 1863, it is really a group of businesses, engaged in food and non-food retailing, funerals, milk production, travel agency, car sales and garage services, agriculture, engineering and property investment. Amongst its subsidiaries it has two that are themselves big businesses: the Co-operative Bank and the Co-operative Insurance Society (CIS). The Group's ownership structure is a complicated hybrid of corporate and individual members. Its corporate shareholders include about 40 retail co-operative societies (allowing for recent mergers) and 120 other co-operatives, and 1.2 million individual members who join through the Society's stores. Third, another interesting reason for seeing the Co-op Group as a key test of whether size and democracy can go together lies in its recent raised commitment to member participation. Under a previous chief executive, CWS had been concentrating on becoming an effective retailer, but had not been emphasizing its co-operative nature. With Sir Graham Melmoth's appointment late in 1996, CWS began a strategic review of its business. This review produced an

ongoing commitment to changing the organizational culture, with a training course in "Co-operative Values, Principles and Future" being extended to all 35,000 staff. In 2000, the Group put a considerable amount of resources into building a decentralized governance structure, set out clearly the powers and duties of each of its three tiers of governance, and began to recruit members to 50 area committees. While the new governance structure builds on the previous structure of CWS, it has provided an opportunity to recruit many new active member. It has been working for two years, and so is at an ideal stage for formative evaluation.

To carry out the project, we formed a partnership with the Co-operative College, which allowed us privileged access to members who had recently been elected to new area committees of the Co-op Group. There are 50 area committees, each with 12 members, and it is this group of around 600 people who have been the main focus of our research.[2] In addition, we drew a random sample of non-participants: people who are on the Group's "members' network", who are supporters of the Group but not involved in its governance structures (of course, in a wider study that took a broader definition of participation, these members would also be to some extent 'active'). For participants, the main data collection method was a self-completion questionnaire. The return was around 90 percent (448 out of an estimated 500 people who had joined the committees at the time of the research—some places were still unfilled). For non-participants we carried out a postal survey and gained a reasonable return (considering the inherent difficulty of interesting non-participants) of 98 questionnaires (36 per cent). In addition, we carried out observation in area committee meetings, and were granted access to meetings of two regional boards and an area committee members' conference. Semi-structured interviews with area committee members and other key informants provided more depth. Using our tried and tested model of what motivates people to participate, we measured the motivations, levels of involvement and commitment of area committee members. Our objectives were:

- To measure the extent to which participants respond to individualistic or collectivistic incentives.
- Within these two broad types, to measure responses to external/internal benefits, different kinds of costs, and three types of collective incentive.

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2 The population size is changing, as more members are recruited through co-option to places unfilled in the recent elections. The survey includes members who were elected in 2001, 2002 and through co-option.

- To understand the effects of the other two links in the 'Participation Chain'—resources (such as prior experience, skills, confidence), and mobilization (issues, opportunities and recruitment efforts), and how the three links work together.

In particular, we wanted to answer the following questions:

- Given that most important decisions are taken at the level of the Board, and that managerial influence will be strong, are committee members at lower governance levels sufficiently motivated over time?
- What is the community that co-operative members identify with? Are consumer co-ops now just too big to sustain a sense of shared community?
- What do the motivations of participants tell us about the way in which managers of co-operatives should shape their member participation strategies?

KEY RESEARCH FINDINGS AND THEIR IMPLICATIONS

We investigated what makes Co-op Group members' participate in governance using the "Participation Chain" model. As we were particularly interested in members' motivations to participate, we will deal with this "link" in the chain first, before returning to the other links: resources and mobilization.

Motivations

Members' motivations to participate were investigated using Mutual Incentives Theory, which examines both individualistic and collectivistic incentives. On *individualistic incentives*, participation varies negatively with costs. In other words, the higher the cost to participants, the lower the level of participation. Members of the area committees receive an annual fee of £500 as well as travel expenses, so it would be surprising if costs were important to them. In fact, few respondents considered *costs* to affect them (see figure 5), and 55 per cent of participants and 45 per cent of non-participants said that none of the costs we listed applied to them. Overall this is good news for the Co-operative Group, because it means that this most basic disincentive is not all that important. However, 20 per cent of non-participants—a significant minority—did say that financial costs were important to them. There is an
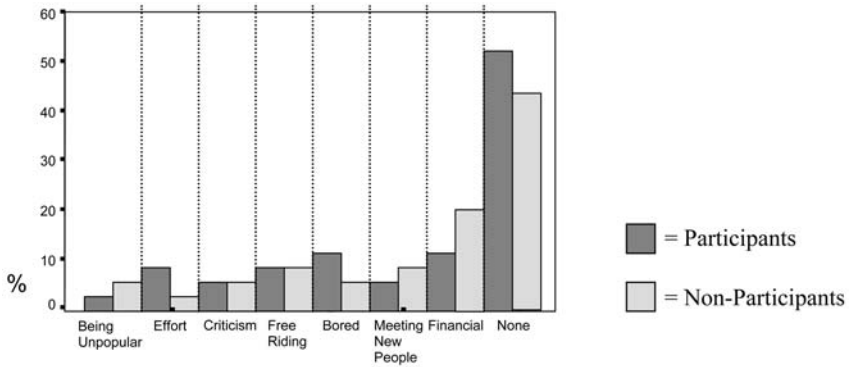
Figure 5: Costs of Participation

underlying issue for the most active participants in this regard too. Of the 10 per cent of participants who said financial costs were important, the majority were from the most active categories. The scale of the Co-op Group may be an issue here, in that the most active participants may be expected to travel considerable distances and incur considerable costs upfront in order to both participate fully in the governance of the business, and demonstrate their ongoing commitment to the co-operative movement (and hence get re-elected). Participants' direct expenses for attending meetings and events were usually covered, but many activists reported having extensive "hidden costs," which they often felt uncomfortable about claiming back. While direct costs do not generally seem to provide a significant barrier to participation, these findings suggest potential areas for fine tuning. The story appears to be similar for *opportunity costs;* just 7 per cent of participants and 28 per cent of non-participants report that these costs put them off participating. However, the difference between these figures is statistically significant. In a world where many things compete for people's attention, a significant minority of non-participants in effect feel they have something more valuable to do with their time.

Participation varies positively with benefits. *Benefits* can be subdivided into "external" (material/tangible) and "internal" (subjectively perceived) categories. "External" benefits were not widely reported as being influential (see figure 6): no more than 16 per cent of respondents said that any of these benefits were important to them. This is surprising, because area committee members are paid an honorarium of £500 a year (plus further increments if they participate at Regional or Main Board levels), and receive a 10 per cent
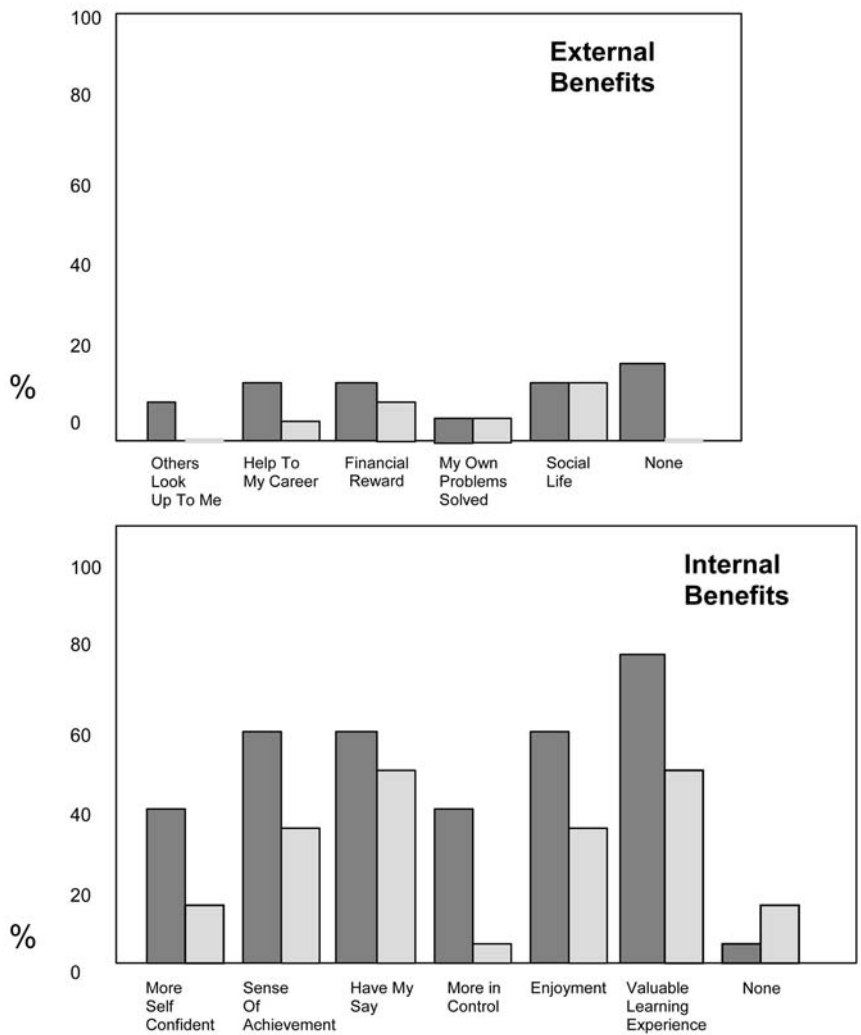
Figure 6: Benefits

discount on purchases. However, some members pointed out that if they calculated the payment as an "hourly rate," they would be receiving no more than a fraction of the UK minimum wage. Few participants attach particular significance to these financial considerations as an incentive. Indeed, as opposed to a direct benefit they seem to prefer to think of these small financial

payments as a buffer against the hidden costs of participation, and a token recognition of their commitment. Yet interestingly these symbolic meanings exert an altogether more powerful effect than that of a straightforward economic exchange. It would therefore be a mistake to think that these payments could be easily withdrawn.

By comparison, many more respondents considered "internal" benefits to be important to them, particularly "a valuable learning experience," "a sense of achievement," "a chance to have my say" and "enjoyment". If the Co-op Group wishes to increase participation, rather than emphasizing the more 'material' external benefits it should concentrate on these more internal rewards. As a basis for this, our research suggests the following strategies:

- Making sure that appropriate levels of information and an open learning environment are available to members.
- Providing adequate opportunities for discussion and debate at all levels of the democratic structure.
- Providing regular feedback to members to allow them to share in collective successes.
- Crediting members when they are successful in initiating positive changes.
- Ensuring there is an appropriate balance between a "task" focus and a more 'social' focus in participatory activities.

Again, the scale and complexity of the Co-op Group can play an important role. Distributing the information that members want on this scale is difficult enough. In such a complex business, it can be even harder getting the balance right between "flooding" members with too much information and not giving them enough. Ensuring that all members have the opportunity to get involved in deliberative and discursive processes can also be difficult (and costly) on this scale, and the Group has adopted the more realistic goal of localizing participation to an area level. However, the size of some of these areas needs to be kept under review—some large areas are already struggling to remain inclusive. According to one key informant, the scale of the organization can also make it harder to keep track of members' contributions as they progress through the various governance structures, "unless a conscious effort is made to do this". There was an expectation that area committee representatives at Regional and Main Board levels would provide feedback to members. However, some area committee members spoke more highly than others about the quality of the feedback they received. Some representatives were highly praised. Others were criticized for feeding back decisions made at Board level but not giving the reasons why these decisions were made. This

has left members to make their own assumptions, devaluing their participation as a learning opportunity and running the risk of them initiating counter-productive rumours as a way of "getting to the facts".

The individualistic component of MIT weighs members' perceptions of the costs against the benefits of participation. Participants' motivations appear to be clear-cut from these findings—the benefits outweigh the costs, and this makes participation more likely. However, the influence of individualistic incentives is called into question by a key finding from our research that shows that over 75 per cent of participants who expressed a preference said they would still participate without any of these incentives. While this seems contradictory, it implies they have collectivistic incentives that outweigh the individualistic ones. When asked, most participants stated they want to get benefits for the group as a whole (60 per cent) as opposed to individual benefits (1 per cent). 36 per cent said both. This suggests that the pursuit of individual benefits is often secondary to a wider set of concerns.

These concerns are the focus of the other side of MIT: *collectivistic incentives*. We measured these incentives using a 29-point attitude scale. This was found to be internally reliable (Alpha = 0.7632). Items were assigned to each of the three positive variables in Table 1: sense of community, shared goals and shared values. We found that non-participants scored significantly less highly on each of these three measures than participants ($p < 0.01$). These findings provide an important distinction between participants and non-participants. Hence, in a straight fight between our individualistic and collectivistic explanations of service users' motivations to participate, the collectivistic explanation appears to win conclusively. Some might argue that we are simply measuring members' ability to use a preferred discourse of collectivistic incentives. However, depth interviews and observations at meetings confirm that collectivistic thinking and discourse are dominant

Table 1: Collectivistic Incentive Scores

	Participants	Non-participants
Sense of community	2.15	2.59
Shared values	2.58	2.92
Shared goals	2.58	2.97
OVERALL	2.44	2.89

Note: Lower scores indicate stronger collective motivations.

amongst participants. The influence of individualistic incentives is not necessarily unimportant, but it is secondary. For the majority of participants, who tend not to calculate what they are getting out of it, collectivistic incentives remain the most powerful motivations for member participation. What follows is that a strategy for participation should not only seek to enhance internal benefits on the individualistic side of MIT; first it should attempt to strengthen members' collectivistic incentives.

Area committee members do have a *sense of community*, although this does not often extend much further than general support for a Co-op shop in their own community, or support for the idea that there should be a shop where one had previously been closed. Sense of community is also much weaker for non-participants. This aspect will need to be strengthened if more members are to be encouraged to come forward and show a more active interest in governance, perhaps moving from "type 3" to "type 2" members in our earlier typology. Key strategies for strengthening members' sense of community include providing (i) a focus for community identity, and (ii) more opportunities for member interaction. Co-op shops provide a strong physical presence in many communities, and an important resource for the development of a sense of community. Yet some area committee members felt that shops were being under-utilized as a focus for the identity of co-op members. Ways to enhance the sense of community include widening members' involvement in both the running of their local shops and the award of the "community dividend" to local good causes. However, at least as important are ways to foster more member interaction. Task-focused group activities such as member day seminars and conferences have provided useful opportunities for interaction in some areas. These have sometimes been supplemented with more social activities such as open days, food/wine tastings and so on. More needs to be done along these lines, but as part of an integrated participation strategy rather than as stand-alone events.

Again, size is an issue here for the Co-op Group. Developmental activities are usually organized by the Group's regional secretaries, in tandem with co-operative affairs officers who work at area level. They are backed up by the efforts of area committee members, but both officers and members seem to be overstretched in these roles. Hence, despite agreement that member development needs to have a more local focus, there is widespread awareness of the difficulties of this within given resources. This presents the Co-op Group with three main options with regard to increasing the sense of community. First, new technologies such as video conferencing could be used to provide additional opportunities for member interaction, as it is already in very large areas such as the Scottish Highlands. However, this is less effective

at building up a sense of community than face-to-face interaction. Second, the large scale of the Co-op Group's areas could be rethought. Some areas could be split down again, though this would add to the costs of servicing the already large governance structure. Third, more use could be made of the Group's local infrastructure by increasing the profile of member development activity at shop level. In this way it could form the base of the membership pyramid, upon which the more formal participation in governance structures could be built. This would initially require a degree of capacity building at local level. However, it need not be costly (Birchall and Simmons 2001) and could potentially reap significant long-term benefits in terms of members' sense of community.

When it comes to developing *shared values* the Co-op has a natural advantage, in that the values and principles set out by the International Co-operative Alliance (see Birchall 1997: Ch. 7 for a commentary) provide clear guidelines. There is evidence that the Co-op Group is now giving increasing emphasis to these values and principles, even in its business planning. Yet while traditional political activity is still an important source of shared values, there is a sense that the Co-op needs some alternative rallying points. The current emphasis on fair trade and ethical consumerism is useful here. The commitment to fair trade did not develop out of a top-down strategy but out of a real groundswell of members' commitment which showed up in sales. Aside from this popular issue, however, progress on developing shared values amongst co-op members is sluggish. The idea of a "co-operative difference" rests on how members differentiate the Co-op from other enterprises. Yet some area committee members felt that the values, status and symbolism of being a member is not reinforced often enough or strongly enough. As one respondent put it, "we need more publicity in the shops about membership and what it *means*" (emphasis original). Size is not as important a limiting factor here, as values and principles can extend and be shared across long distances. However, the logistics of supporting shared values can be problematic. Communicating this message strongly and consistently in an organization of the sheer scale of the Co-op Group will depend upon sustained leadership and commitment from the very top of the organizational hierarchy, reproduced at local level in the Co-op's stores.

One way to broaden the scope of the values "offer" to members would be to increase the age range of active members. The average age of those involved in governance is currently the late fifties. The Scottish region of the Group has taken the lead here by launching a Young Co-op Network designed to involve young people, focusing on their values and the issues that concern them.

Members' commitment to *shared goals* hinges on two main criteria:

- A feeling that the organization as a whole is working towards the same objectives and 'pulling in the same direction' as members.
- A sense that committees are effective—that they are able to "get things done".

Many area committee members do have some sense that the organization and its members are "moving together". There is a clear demarcation between the work of the areas, which is mainly advisory, and the regions, which is much more concerned with decision-making and budgeting. Our evidence shows that area committee members understand this, and that their aspirations are not unrealistic. A more significant problem is area committee members' sense of effectiveness. Some are frustrated by their perceived lack of real influence. One crucial relationship is with their local area manager. Where the relationship is a good one, this individual is able to provide good information, link members to local managers and shop staff, and account for the actions of "management" in general. S/he will listen to members' advice and make sure that the views of the committee members are taken into account. Some areas have this kind of relationship, others still do not. One respondent told us what a pleasant change it had been "to be listened to for a change" after a new manager had taken over from one of "the old guard". For many area committee members, the key focus is what is happening at the local store level. With some ongoing reservations about influence, it seems that they generally perceive things to be moving in a more positive direction at this level. Members have similar reservations in relation to higher levels in the governance hierarchy. Here, area committees are dependent upon the regional secretary and their representatives on the regional board. We have already discussed the importance of feedback to members from these representatives. This aspect is also crucial to the development of a sense of shared goals. As we noted earlier, in practice the feedback received is variable, although again there is an overall sense that things are gradually improving.

Is size a factor for the development of shared goals? In area committees it was plain that most members did not have detailed knowledge of more than one or two stores in their area. Similarly, detailed knowledge of developments at more strategic levels of the organization was also limited to just one or two key individuals. The scale and complexity of the Co-op Group, therefore, feeds area committee members' reliance on other people to help "fill the gaps" in their own knowledge. This creates a double-edged sword. If members' colleagues are trusted and seen as 'good co-operators', the sense of shared goals may be strengthened. If not, it may have a constant undermining effect on this important motivational component.

Resources and Mobilization Factors

We now expand our analysis by considering the other factors at work in the "Participation Chain". The first link in the chain examines participants' *resources* such as money, time and skills. *Money* did not show up as being an important resource for participation at area committee level. 55 per cent of participants had annual incomes of less than £10,400, and participation rates did not vary significantly between those on higher and lower incomes. *Time* also showed relatively little effect, either on whether participants got started or on the quantity of their participation once they were involved. However, participants with children were less likely to participate for more than 5 hours per month. This point marks the level at which members elected to higher decision-making levels begin to participate. Childcare commitments may, therefore, not preclude participation *per se*, but may prove a more significant barrier to performing office-bearing or representative roles. Indeed, at higher levels of the structure things may be different for both money and time. For example, a main board member must necessarily also be an area committee member and a regional board member. S/he may also be asked to sit on the board of one or more of the Co-op Group's family of businesses, and be expected to attend a host of events, nationally and sometimes internationally, related to the Co-op movement as a whole. As one board member told us, "It is not for the faint-hearted . . . if I was not lucky enough to be able to juggle my various commitments I would not be able to continue—simple as that". The scale and complexity of the Co-operative Group can, therefore, place immense pressures on participants' finite personal resources of time and money, and the ability to sustain their involvement. The Group urgently needs to review these pressures and make efforts to reduce them wherever possible. Compensation is another issue. In addition to expenses, there is a strong argument for boosting annual fees given to members of regional and main boards to the level that would be lost by an average earner. In this way, it will remove some of the barriers to those who have to be in paid work, and may help to bring younger people and more women into the higher levels of governance.

The Group's Governance Committee is currently considering this issue. In October 2003 annual fees for members of the Group Board were substantially increased (in addition to loss of earnings payments), and a review for regional board members has been promised.

Skills derived from educational qualifications did not show up as important in whether co-op members got started or not – non-participants were actually more likely to have educational qualifications than participants.

This may be explained by the strong labor movement roots of the co-operative movement, and the way in which involvement has often passed down through families. However, skills derived from previous experience of participation in similar organizations were important. 85 per cent of participants but just 52 per cent of non-participants had previous experience. Co*nfidence* has related effects. Participants reported much higher levels of confidence than non-participants about their ability to participate (96 per cent v. 57 per cent). This was also true of their confidence in personally making a difference to getting things done (86 per cent v. 44 per cent). Of course, this is not just a one-way relationship. Having confidence may lead to people participating, but the relationship is likely to be stronger the other way round: the more people participate, the more they gain in confidence. Amongst participants, confidence also correlated strongly with the extent to which members participate.

Are members who do not have skills, previous experience and confidence put off by the prospect of participation in the Co-op Group, and if so, why? We speculate that the size and complexity of the Group may be an important factor. More effort needs to be made to build up the capacity of non-participants who do not have the experience and skills of current participants. This means putting more investment into education and training activities, or linking up with organizations that provide such activities, and incentivizing people to take advantage of them. In the past, the ''Co-op'' was a major provider of adult education and library facilities, and supported organizations such as the Workers' Educational Association (WEA). In return, it received well-trained and motivated active members. This strategy is now commonplace. For example, the link with adult education is, historically, a key to the success of co-operatives in Denmark, and the Migros co-operative in Switzerland puts much of its surpluses into such activities (Birchall 1997). Scottish Co-op (the Scottish region of Co-op Group) is about to roll out a major awareness-raising exercise among members called ''Know Your Co-op'', using the WEA tutor network as the mechanism for delivery.

On the *mobilization* of participants, we found that participants are significantly more engaged than non-participants on *issues* such as negative relationships with organizational decision-makers, and concern with proposed changes. Important *interests* include ''a strong interest in politics,'' and a desire to join with other like-minded people. Most of these are ''local'' issues, which is the level at which most people seek to get involved. Participants were also much more likely than non-participants to feel that the Co-op provided them with enough *opportunities* to participate, and to say their initial evaluations of these opportunities were positive. Importantly,

non-participants who expressed a preference were particularly keen to see more localized opportunities for participation. We also found that participants were much more likely than non-participants to be subject to face-to-face *recruitment efforts*, and that the recruitment agent was usually known to the participant through existing social networks. Direct links to related organizations (such as trade unions, other types of co-operative, the Labour Party and Co-operative Party) are important for recruitment. However, co-operatives are relying here on the same 'reservoir' of activists, raising important issues concerning long-term viability and diversity (for example, very few current area committee members are from ethnic minorities).

Non-participants were more likely to be the subject of written recruitment attempts. Is scale a factor here? As most member participation in the Co-op Group is organized by small teams based at regional level, face-to-face recruitment efforts are unfeasible. This has led to a dependence on mailings of "flyers" to members, which have traditionally received a poor response. A recent mailing in one region was organized differently, using a more sophisticated technique to send personalized letters to individual members. Another technique was to follow up a letter with a telephone call. These methods achieved a significantly higher response from members who had not previously participated, and show that it does not only matter that members get asked to participate, it matters how they are asked.

However, our findings show that face-to-face recruitment methods are even more effective. The obvious place to locate recruitment efforts is, therefore, the local shop. And the obvious people to use as "recruitment agents" are the staff, many of whom will be familiar to and trusted by customers and members from their everyday interactions. Soon, customers of other branches of the Co-operative Group business will be able to join through that particular branch. We anticipate that the Co-operative Bank, with its already ethically-minded customers, will become a significant place to locate recruitment efforts.

CONCLUSION: SIZE AND DEMOCRACY IN THE CO-OPERATIVE GROUP

This formative evaluation of the Co-op Group was given added urgency by the fact that the future of consumer co-operation in the UK largely depends on the future of Co-op Group. If this giant conglomerate were to fail, then it is difficult to see how smaller regional societies would survive for long, especially since the Group services a Co-operative Retail Trading Group that now does

most of the buying for the "movement" as a whole. In the words of its recently past chief executive, Sir Graham Melmoth, a strong, broadly-based Co-operative Group is "the rock on which the consumer co-operative proposition stands" (quoted in Birchall 1998: 16).

So how well is the Co-operative Group doing in relation to reinvigorating member democracy? Looking at the umbrella model for developing member involvement (Figure 1), it has taken some positive initial steps. At stage 1, for example, a review of the Co-op Group's membership database is ongoing, which will help to identify the "mobilization potential". At stage 2 democratic structures have been re-established (with a new rule book) following the merger of CRS and CWS, and members have been recruited to these new structures. The Co-op Group's efforts now need to focus on the remainder of the model:

- Engaging with members beyond the 'core' of true believers.
- Reinforcing both the values and benefits of mutuality, and the importance of member democracy.
- Remaining accountable to consumer members.

Insights from the Participation Chain model highlight key success factors for achieving these tasks, and suggest some potential action strategies. Members must have sufficient *resources* to be able to participate effectively. First, capacity building, in terms of education and training, is important. Second, members must be provided with adequate information to support their involvement in the Group's governance structures. Third, at higher levels of governance, sufficient compensation must be offered to ensure that opportunities are open to the widest possible pool of members, although it is worth noting that few members seek full remuneration, feeling that this might threaten their independence or make the sense of obligation to participate excessively burdensome. *Mobilization* issues must also be considered. More and better opportunities must be created for member interaction. This will allow for discussion and debate of common issues/ interests, as well as greater social contact. In turn, increased interaction may support a strategy for face-to-face recruitment. It is also important that face-to-face recruitment is incorporated as part of a greater store-based approach to member development. Greater "localism" is possibly the most important strategy for the Co-op Group as far as members' *motivations* are concerned. In conjunction with the new opportunities detailed above, a store-based focus for their activity will enhance members' sense of community. Better relationships with local store and area managers, along with tangible

outcomes from their input, will both increase the "internal benefits" of members' participation and enhance their sense of shared goals. However, this is not to say that more "global" considerations are redundant. Application of the values and principles of co-operation to the concerns of today's consumers (including an emphasis on ethical and fair trade) will help to reinforce a sense of shared values.

This article also points out a number of ways in which the Group's scale and complexity can add difficulty to the promotion of member involvement. There appear to be problems in:

- Ensuring that the flow of information to members is neither too limited nor overwhelming.
- Making opportunities available to all members (remembering that rotation of the venues of meetings is not always the answer).
- Ensuring that feedback works its way back through the tangle of structures to active members.
- Providing sustained leadership and commitment on member democracy both centrally and locally, including getting store-based staff to take more responsibility (though we should note that this issue of mobilizing and motivating staff is another difficult issue that we are unable to deal with here).

If size is a problem for member democracy, one alternative would be to simplify the structure of the Co-op Group. Each region, and every one of the Group's divisions, could become a separate co-operative society in its own right. However, in the context of fierce competition from national and international level competitors this is, for business reasons, not a feasible option. The Group has also begun to build potential synergies between its different businesses, for instance by making the Bank and the CIS come under one single structure (Co-operative Financial Services), and by involving area committees in the travel, funeral and pharmacy businesses as well as food and non-food retailing. More importantly (from the point of view of our research), we have found no evidence of a crisis in member democracy that would warrant such drastic changes in the organization's structure. Simplifying the structures and/or reducing the size of the Group would therefore not be on our agenda for change. There are other factors involved and, as the Participation Chain model suggests, plenty of room for improvement within the existing structures. In some respects, the Group's large scale could even be turned into an advantage. With at least 1.2 million members and a turnover of £7.7bn it has a huge mobilization potential and

considerable resources with which to support member democracy (though it has to be admitted that the sheer numbers are daunting, especially when many of the 1.2 million may not even be aware of what membership means).

The Co-operative Group is attempting to set up and service a complex governance structure in which members are involved at all levels. In short, it has made a good start with this, but there is potentially still a long way to go if it is to successfully deliver its member participation and governance strategy. As it looks towards the future, it is particularly important to ensure that all parties believe that the participation strategy is worth fighting for—that it is worth all the effort and expense and will add value to the business. This evaluation suggests that it is. Without the new governance structure, membership would have little meaning, as economic benefits from the Group's performance currently accrue to all customers, rather than just to members. This last point is important. It highlights a parallel track that, in addition to improving the participation strategy, can work to reinforce the Co-op Group's efforts to make membership meaningful. This track relates to the Group's ability to deliver tangible benefits in the economic sphere, particularly distribution of the dividend. In 1995 the CWS introduced a "dividend card," along the lines of competitors' loyalty cards, which distributed standardised benefits to all its customers. However, the Co-operative Commission (2001) has stimulated a review that may soon lead to the introduction of a "real dividend" (Co-operative Group 2002). If this dividend is restricted to members then customers will have an initial incentive to join. If this is linked to well thought out attempts to mobilize some members for higher levels involvement, then the circle will be squared—economic strength and member participation will be brought together at the base level of the organization.

We conclude that with steady, incremental improvements of the kind suggested above, the Co-operative Group should be able to increase both the quantity and quality of member participation. Our formative evaluation shows that the Co-op Group is gearing up to meet this challenge. It also shows that the size of the Co-op Group need not be considered an insurmountable hurdle. Provided the Group's commitment to member democracy is strong, the difficulties thrown up by its scale and complexity may be seen as implementation issues that can be minimized by the careful redirection and targeting of resources. In sum, the old generalization about democracy—the larger the size of organization the lower the level of participation—has been shown to have some truth in it; there are difficulties in reaching such a massive number of members, and in connecting up large-scale governance structures with people's concern for their own locality. However, the generalizations

provided by Mutual Incentives Theory and the Participation Chain are much more detailed, and provide reasons for some cautious optimism about the future of large-scale co-operatives and mutuals.

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