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Alexandra Ettlín – Rethinking growth:
how cooperatives can foster common growth

RETHINKING GROWTH: HOW COOPERATIVES CAN FOSTER COMMON GROWTH

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Alexandra Ettlin is a Ph.D. Candidate at the University of St. Gallen and works as research associate at the RISE Management Innovation Lab. Her main areas of interest are strategy and organisational development. She obtained her Bachelor's and her Master's degrees from the University of St. Gallen and gathered valuable experience at universities abroad including the Sorbonne in Paris and Copenhagen Business School. When writing her Master's thesis, she researched on *Sustainable implementation of operational excellence initiatives in the pharmaceutical industry*. Alexandra's work experience includes projects with Swiss Airlines, Raiffeisen Bank and ART Basel. In her spare time, she enjoys cross-country skiing, piano, cooking, riding and English literature.

As I read through the topic paper for this year's St. Gallen Symposium, I was struck by the level of ambiguity about the concept of continued *sustainable* economic growth and how we are coping with that today. Several points mentioned in the topic paper already seem to cast serious doubts on our unassailable assumptions about the future – both in terms of our current corporate structures and their benefits for an increasingly divided and polarised society.

As the topic paper mentioned, what could be the sources for future growth? Not traditional industries; perhaps the ever-seductive black box of technology? – no, as the paper continues: “We are not there yet.” For example, observing the manufacturing structure for our tech giants today, with production relegated to the cheapest sites in Asia, often with undesirable after effects, we cannot help but feel that we again contribute to a

worrying trend of “social inequity in the developing world”, as well as the “ever-richer manager vs. the ever-poorer worker” divide. The statistics and reports about these phenomena are very sobering; University of California at Berkeley economist Emmanuel Saez, for example, reckons that between 2009 and 2012, the top 1% captured 95% of total income growth in the United States.

Despite all the dynamic and energising aspects of an idealised capitalistic vision, the pendulum has swung so far that the astonishing gaps and disparities between the work force and top managers threaten our future stability. Again, to quote from the symposium's topic paper: “The prospect of increased wealth is failing.” So how could we realise the elusive *best growth for all* goal that will allow continued progress and a fairer version of *prosperity*?

A return to some of the basic tenants of cooperative company structures would be

a very good way to deal with these issues, as well as the steadily increasing, dangerous problem of long-term structural unemployment among young people. Again, examining trends from outsourcing to robotics, we are faced with the paradox of improved efficiency and better profit margins, resulting in higher returns for stockholders and simplified production structures that increasingly marginalise, reduce, or even eliminate more and more jobs. Especially producer and worker cooperatives could be an interesting option, as the wage differences among managers and employers are smaller and stability is guaranteed through continuous re-investment of turnover surplus into the cooperation. The United Nations declared 2012 as *The International Year of Cooperatives*, high-lighting their contribution to socio-economic development, particularly their impact on poverty reduction, employment generation and social integration.

COMBINING ECONOMIC AND SOCIAL DIMENSIONS

Cooperatives are very ancient and venerable structures, with historical roots in renaissance Europe, when guilds began to ally themselves to encourage trade, maximise locally available labor on all levels and create the *rising tide that raises all boats*. Interestingly, an early goal of cooperatives was to counter monopolistic trends and foster competition.

The most widely used definition of a cooperative enterprise is that of the International Cooperative Alliance and it reads: "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise." The fundamental principles of the modern cooperative enterprise have remained unchanged for over a century and a half:

- Voluntary and open membership: also referred to as the *open door principle*, they are open to all persons able to use their services and willing to accept the responsibilities of membership.
- Democratic member control: unlike capitalist firms, all members have equal voting rights organised in a democratic manner, which are not weighted.
- Member economic participation: members contribute equitably (not necessarily equally) to the capital of their cooperative.
- Autonomy and independence: cooperatives are autonomous, self-help organisations that are controlled by their members.
- Education, training and information: cooperatives support and provide training and education for their members, representatives, managers and employees.
- Cooperation among cooperatives:

cooperatives work together through local, national, regional and international structures.

- Concern for community: this is the most recently added principle, which states that cooperatives must work for the sustainable development of their communities through policies approved by their members.

What makes cooperatives unique is that they integrate two dimensions; on the one hand, they incorporate the economic characteristics of an enterprise operating within market structures and logic; on the other hand, they possess the social dimension of an institution that follows meta-economic aims and produces positive externalities for the community and society.

The appeal of the cooperative model lies in its ability to counteract the current market dynamic that the American economist Sherwin Rosen has called the superstar effect: winner takes it all, loser leaves all. The capitalistic model, rooted in the explosive turmoil of the industrial revolution, has grown and mutated so radically that many of today's economic scholars, managers and administrators dismiss the cooperative concept as a kind of archaic, vaguely *socialist* relic. It is easy to forget that cooperatives function in a much more inclusive manner because they enable many more players to be part of the economic game, as well as encouraging informed involvement with one's own group and knowledge about others. A practical example of cooperatives' inclusive mechanism is the *cooperative promotion*, which promotes inter-firm solidarity. In Italy, for example, cooperatives allocate 3% of their net operating result to form or support other cooperative enterprises.

OVERCOMING SHORT-TERM THINKING AND FOCUS ON THE COMMON GOOD

One of the most disturbing and counter-productive trends of the last half century has been the startling compression of time horizons for public companies. Every quarterly release is a potential harbinger of doom, disregarding the fact that many necessary and constructive processes, steps and trends need more time to plan and implement, let alone produce results. An unsatisfactory quarterly report can devastate a public company's stock price and produce vastly over-proportional damage and after-effects. Unlike publicly traded firms, managers of cooperative organisations do not face as much pressure about short-term profit optimisation and the constant need to justify quarterly reports. This shift from *quarterly capitalism* towards a true, longer-term way of thinking would require wide-ranging shifts in mind-set and practice of managers facing pressure from owners and stock markets. Managers of cooperatives need to justify how their management decisions and activities have contributed to the overarching goals of the cooperative. Among others, these goals certainly include profitability but, most importantly, not profit maximisation. This points to another fundamental difference between the goals of cooperative and capitalistic companies. A capitalist de-finition of *the good* emphasises the total good, best defined as the sum of the goods of individual persons. Within the capitalist frame, when enough benefit can accrue to certain members of the group, other members can lose many or all of their benefits, or be eliminated without harm to the group total-sum equation. A cooperative approach, however, has a different logic adhering to the common good; it is a product, in which the multipliers are the good of the individual.

Two main challenges facing cooperative enterprises are the issue of raising capital and slower decision processes due to democratic member control. I suggest two ways to approach these issues. Through the internet and new media, ideas can be quickly spread and shared across a large community. This opens up the opportunity for an innovative form of capital procurement: crowd-funding. Cooperatives can open up their investments to supporters of an idea who are not only necessarily members of the cooperative, but willing to make a limited investment. The investment is compensated if it is profitable; since the investment would be split between a large number of parties, the single risk is smaller, in turn promoting more investments.

Democratic structures can make decision-processes slow, while the increasingly complex business world requires agile decisions. This is a challenge for cooperatives and further research is needed on how to facilitate faster decision-making, while keeping the process fair. One possible way to adjust the *one member, one vote* principle is to make voting rights proportional to the volume of business the members do, with a cooperative of the effective participation in the life of the organisation.

Another interesting approach could be a political governance form of cooperatives: there is an executive team, which has the liberty to act and make decisions within certain boundaries established by the cooperative members, functioning as the *legislative organ*. This liberty to make certain decisions expeditiously is vital for a cooperative and balances the time disadvantage of a much larger scope of input into decisions. The legislative organ would regularly confirm the members of the executive team through fair voting. The judiciary

organ could be an *ethics and interest board*, which is composed of selected, representative cooperative members. They could monitor and offer decision counseling to the executive team.

A SWISS SUCCESS STORY

Switzerland's leading retail organisation Migros was founded as a public limited company in 1925 by Gottlieb Duttweiler, a merchant known for his progressive ideas and strong sense of social responsibility. In 1942, he transformed Migros into a cooperative and gave his share to customers. Today, Migros has more than 95,000 employees and a large proportion of the Swiss population are members of the Migros cooperative, making Migros a super-market chain that is owned by its customers. As part of the transformation into a cooperative association, core values were incorporated into Migros' constitution that are still valid today. For example, Migros does not sell alcohol or cigarettes and a fixed rate of the yearly surplus goes towards social and cultural projects. Open communication and maximum transparency are also important aspects; whenever possible, employees are the first to be informed about important decisions and events.

An analysis of Migros' activities and employee politics stands in striking contrast to the reports of many other leading retailers. Wal-Mart, for example, with over 1.3 million employees in the United States is, on the one hand, praised for its low prices, efficiency and brand power. On the other hand, the retailer is experiencing increased pressure from outside stakeholders regarding its unethical behavior in the form of low wages and poor working conditions coupled with high manager salaries. In 2004, the average wage of a Wal-Mart employee was under the poverty line of USD 19,157 for a family of four people.

The low wages, in combination with Wal-Mart's minor contribution to employees' health insurance, forced workers to apply for state subsidies, which in turn strained public spending.

Although not all the differences in corporate social responsibility policies between a company like Migros and Wal-Mart can be reduced to being cooperative or not, a cooperative structure can ensure an inherent value system not solely focused on profit maximisation. As research has shown, several non-cooperative retailers, such as Tesco, only confront ethical considerations when the pressure from outside stakeholder groups gets very strong. Their management faces the dilemma of balancing the pressure from owners/stockholders to maximise profits, while then being forced to take other considerations – like business ethics – into account.

One of the biggest barriers to re-considering the cooperative concept on a larger scale is our own deep-seated acceptance of – and fascination with – the capitalistic company. What we must consider is the transformation that has taken place in the public consciousness: from a *Monopoly*-style caricature of the tycoon and market dominance to almost total tolerance of the world-wide and increasing inequity and unsustainability of many of today's capitalistic firms. Attempting to gauge the social stability potential of a huge world population with a massive *economic refugee* problem may very well force us to re-think our assumptions about making good and doing good.

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