

AND THEN THERE WERE SEVEN: Cooperative Principles Updated

By [Ann Hoyt](#)

*"We have to do it this way. After all, that's what makes us a cooperative."
"We only sell natural and organic foods. That's a fundamental principle of cooperatives."
"If we don't have member labor, we won't be a cooperative any more."
"It's against the cooperative principles to earn a profit."*

All these statements and more are heard in natural foods cooperatives throughout the country when members, staff and directors describe their businesses. Well-intentioned? Yes. Inaccurate? Often. Confusing? Yes. What is a cooperative? Who determines the nature of cooperative business? Is there a final authority?

Since its creation in 1895, the International Cooperative Alliance (ICA) has been accepted by cooperators throughout the world as the final authority for defining cooperatives and for determining the underlying principles which give motivation to cooperative enterprise. Over 200 ICA members from more than 70 countries represent more than 700 million individual members of agriculture, banking, credit and saving, energy, industry, insurance, fisheries, tourism, housing and consumer cooperatives. One of the major purposes of the ICA is to "promote and protect cooperative values and principles."

The ICA has made three formal statements of the cooperative principles, in 1937, 1966, and in September of this year. Each statement was carefully crafted to adopt and explain principles which were both relevant to and of value for the contemporary world. The six cooperative principles which U.S. food cooperatives generally espouse are those adopted in 1966.

In the early 1980's cooperators began to call for a reconsideration of the 1966 principles. Substantial changes in the global economy, in international political alignments, in the economic development of Asia, Africa and Latin America, and in the world-wide human condition brought new challenges and opportunities to cooperatives worldwide. Inevitably, the scope of problems being addressed and the extent of change throughout the world challenged some traditional cooperative assumptions, offered new interpretations of cooperative values and inspired a reconsideration of the role of cooperative enterprise in the 21st century. In its role as custodian of the cooperative principles, ICA was challenged to reevaluate the 1966 principles and determine whether they continued to provide useful guidelines for the future.

From the beginning, this remarkable international discussion and debate focused on fundamental questions. What, cooperators asked, is good, valuable, and worth striving for? At various times moral, ethical, social, cultural, economic and political motivations were each

addressed. The goal was to clearly identify and achieve international consensus on what role cooperative enterprises should play in societies undergoing rapid change.

Last September, at its 100th anniversary meeting, the International Cooperative Alliance adopted a "Statement of Cooperative Identity." The Statement defines cooperatives, identifies shared values of cooperators world wide and refines, restates and expands the 1966 principles. The 1995 principles are intended to guide cooperative organizations at the beginning of the 21st century.

The Cooperative Defined

The Statement of Identity defines a cooperative as "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." While intentionally crafted as a minimal statement which could embrace the vast array of cooperative organizations throughout the world, the statement emphasizes some important characteristics of cooperative enterprise.

These include: autonomy:

the cooperative is as independent of government and private enterprise as possible;

association of persons:

the definition deliberately does not read an association of individuals. The term person embraces any legal definition of "person" which includes companies as well as individuals;

voluntary:

members are free to join and leave at will, within the purposes and resources of the cooperative;

meet needs:

the central purpose of the cooperative is to meet member needs, which can be purely economic or social and cultural;

joint ownership and democratic control:

the members own the cooperative on a mutual basis. Decisions are made democratically by the members and are not controlled by capital or by government;

enterprise:

the cooperative is an organized entity that typically functions in the marketplace and engages in the exchange of goods and services.

Cooperative Values

Traditionally, the cooperative movement has had deep ties to the wide array of the world's religions and ideologies. It has consciously and continuously explored its own belief system and attempted to identify those personal ethics and social ideas, if any, that are shared by cooperators and motivate our future actions. The 1995 Statement articulates the best in our belief system, the ideals of personal and social conduct to which we aspire. In its background paper on the Statement of Identity, the ICA explains, "Any discussion of values within cooperatives must inevitably involve deeply-felt concerns about appropriate ethical behavior. Achieving a consensus on the essential cooperatives values [within a rich array of belief systems among ICA members] is a complex but rewarding task."

Basic cooperative values are general norms that cooperators, cooperative leaders and cooperative staff should share, and which should determine their way of thinking and acting.

They are our statement of what we think is the right thing to do. Based on a book written by Sven Ake Bööck for the 1992 ICA conference, *Cooperative Values in a Changing World*, the discussion assumed every generation recreates and refines its basic values so that they are inspirational to contemporary society. It is in our statement of values that we engage the hearts, conscience and loyalty of cooperative members.

The first sentence of the values statement addresses our convictions about how to achieve a better society and what form that society should take.

The values include: self-help:

people have the will and the capability to improve their destiny peacefully through joint action which can be more powerful than individual effort, particularly through collective action in the market.

democracy:

members have the right to participate, to be informed, to be heard and to be involved in making decisions. Members are the source of all authority in the cooperative. "The basic unit of the cooperative is the member.... This basis in human personality is one of the main features distinguishing a cooperative from firms controlled primarily in the interests of capital." ICA Background Paper;

equality:

equal rights and opportunities for people to participate democratically will improve the use of society's resources and foster mutuality, understanding and solidarity.

equity:

fair distribution of income and power in society and its economic life should be based on labor, not ownership of capital. Within the cooperative, rewards for active membership in the cooperative will be distributed equitably, be it through patronage dividends, allocations to capital reserves, increases in services or reductions in charges.

solidarity:

cooperatives are based on the assumption that there is strength in mutual self-help and that the cooperative has a collective responsibility for the well-being of its members. Further, individual cooperatives strive to create a united cooperative movement, by working with other cooperatives to improve collective well-being.

The values statement also articulates values of personal and ethical behavior that cooperators actualize in their enterprises. They describe the kind of people we strive to be and the traits we hope to encourage through cooperation. These are honesty, openness, social responsibility and caring for others.

From the earliest days of the Rochdale Pioneers, cooperatives have emphasized the importance of honest dealings in the marketplace: accurate measurements, reliable quality and fair prices. Members have insisted that their enterprises have honest dealings with them. This in turn has led to honest dealings with non-members and a unique level of openness throughout the organization.

The values of social responsibility and caring for others reflect concern for the health and well-being of individuals within communities and a commitment to help them help themselves. The recent international outpouring of support from all types of cooperatives for the credit union that was demolished in the Oklahoma bombing, the consumer cooperatives

devastated by earthquakes in Japan and the housing cooperatives destroyed by a hurricane in the Virgin Islands are excellent examples of the cooperative movement's commitment to social responsibility.

The 1995 Cooperative Principles

Principles are guidelines for how to put ideals and values into practice. They rest on a distinct philosophy and view of society that helps us judge our accomplishments and make decisions. If successful, principles are incorporated into the organizational culture of the cooperative, they are the broad vision statement for cooperatives and cooperators individually and collectively. Shared and actualized principles allow cooperatives to be distinguished from other forms of organization. As ICA puts it, "principles are not a stale list to be reviewed periodically and ritualistically; they are empowering frameworks through which cooperatives can grasp the future."

Given that the ICA has adopted a new set of principles and, implicitly all of the world's cooperatives have agreed to uphold them, there is no more important visioning work for your cooperative to do than to become familiar with the new principles, discuss them, understand what impact they may have on your business and your members. They give each of our businesses an opportunity to re-energize and recommit itself to the general goals of cooperation and to attract new people to the cooperative movement.

The seven principles adopted in 1995 are described below.

1. Voluntary and open membership

This principle has changed little from the 1966 version. It implies that individuals must not be coerced into cooperative membership. Rather, their participation as active and responsible members should be based on a clear understanding of the values for which cooperatives stand and support for those values. At the same time, while membership is open, the principle assumes the member is able to use the services provided and is willing to take on the responsibilities of membership. This language recognizes that some cooperatives may close membership based on ability to use the cooperative or on a limit to the number of members the cooperative can effectively serve. The important idea here, however, is that cooperatives do not discriminate against potential members based on their inherent characteristics (social, racial, political, religious or gender). Particularly important is the addition of gender as a category in the 1995 principles. The ICA Women's Committee has worked long and hard to have gender added to the list and to ensure that the organization's expectations for cooperative enterprises are clearly expressed.

As U.S. food cooperatives learn to survive in intensely competitive markets, the membership principle and associated principles of education and member control take on critical importance. Members value their cooperatives only when they believe that the cooperative understands and serves their needs well. The membership cannot carry out its unique cooperative responsibilities if it is uninformed, nor if it is unable to be heard by its elected representatives. The open membership principle obligates elected leaders, managers and staff to elicit information from the entire membership body (not just a subset of organized opinion) and to understand their members and potential members fully regardless of their religious or political beliefs, their gender or sexual preference or their cultural or social background. The

special relationship between the cooperative and the people it serves is a unique characteristic of cooperative business.

2. Democratic Member Control

Building on the principle of open and voluntary membership, the principle of democratic member control defines the way in which members will make decisions. It assumes that members will participate in setting policy and giving broad direction to cooperative activities in a way in which no member has no greater "voice" than any other member. This principle is closely related to the "one member, one vote" principle of the 1966 revision. The new principle, however, gives specific attention to the potentially different voting structures that may be put in place in secondary cooperatives. When cooperatives (rather than individuals) are members of secondary cooperatives, the one member, one vote rule may result in substantial inequities for the individual members of member cooperatives. For example, if a cooperative of 1,000 members and a cooperative of 25 members each have one vote in the affairs of their cooperative distributor, the 25 members of the smaller cooperative clearer have a stronger proportional voice than do the 1.000 members. For this reason, the principle clearly addresses the possible need for different voting procedures at the distributor level in order for voting to be democratic.

3. Member Economic Participation

This principle deals directly with the very difficult problem of capital acquisition by cooperatives in amounts large enough to compete effectively with vast global industries. Throughout this history, cooperatives have been built on the premise that capital is a servant of the enterprise, rather than the master. Cooperative activities are organized to meet member needs, not to accumulate capital in the hands of investors. In the past, the principle of capital as servant led to a belief that resources generated by profitable cooperative enterprises should be returned to labor, rather than concentrated in the hands of owners of capital, by strictly limiting returns to invested funds.

It has not always been clear what role, if any, is played by non-member capital investment, or investment by members beyond the "fair share" required. Although members own millions of dollars that they might invest in cooperatives, the previous restrictions on dividends to be paid on capital did not encourage them to invest beyond the required amounts. Consequently cooperatives have repeatedly been unable to generate equity for capital intensive projects; nor have they been able to maintain the value of invested capital during inflationary times. The strict limitation on dividends to capital has been lifted in the 1995 principles which now imply that cooperatives compensate capital and labor fairly.

In order to retain the democratic nature of the enterprise, members of cooperatives are expected to contribute capital equitably and to democratically control the capital of the business. To retain the community centered nature of the enterprise and the belief that strength comes from pooling resources to engage in mutual self help, there is an underlying expectation that a portion of the cooperative's capital should be owned collectively by all members. Finally, the principle also gives guidance to members on possible uses for surpluses generated by the enterprise. Interestingly, two of the suggested three uses are designed to provide community rather than individual benefits.

4. Autonomy and Independence

In the thirty years since the passage of the 1966 Cooperative Principles, numerous third world countries used cooperatives as an intentional part of their social and economic development

strategies. Where there are many instances of successful development through cooperatives, the overall record is mixed at best. Even though the intent was to develop self-reliant member controlled enterprises, government initiation and support was necessary to begin the cooperative ventures. Unfortunately, many of the governments, especially in centrally planned economies, were unable to withdraw from the cooperatives. Instead, cooperatives, closely controlled by government functionaries, became inefficient, bureaucratic and poorly managed, a haven for government bureaucrats. Independence and autonomy was never realized.

The new autonomy and independence principle emphasizes that cooperatives must be free of intervention from governments or other sources so that ultimately the members are able to control their own destiny.

5. Education, Training and Information

Education continues to be a priority of the cooperative movement in the new Statement of Identity. The background paper on the principle emphasizes that cooperative education is more than advertising product or distributing information. It is critical to the effective and informed participation of members which lies at the core of the cooperative definition. "It means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexity and richness of cooperative thought and action." The rewritten principle also highlights the importance of educating the young and opinion leaders about the nature and benefits of cooperation. If cooperatives are to be part of the solution to many of the world's problems, people must be not only aware of the concept, they must appreciate it and be willing to participate in it. Such active involvement will not occur if people do not understand cooperative enterprise.

6. Cooperation Among Cooperatives

This principle is virtually unchanged from the 1966 Principles.

7. Concern for Community

Grounded in the values of social responsibility and caring for others, this new principle gives articulation to the cooperative interest in making contributions to a better society at large. By taking ownership over portions of the economy, cooperative members are saying, in effect, we can meet our needs and the needs of others better than they are currently being met. Because the effort is a mutual one, cooperative members understand that to provide for any member is to provide for all members.

Interestingly, much of the writing and debate that evolved into this principle was centered on environmental protection as well as sustainable development. Much of the development of the Statement of Identity and its rationale was presented to the 1992 ICA Congress in Tokyo by Sven Book in the report, *Cooperative Values in a Changing World*. Book placed emphasis on the tie between cooperatives and the environment, saying,

"The next century needs the contributions of cooperative organizations as a people-based international countervailing power' for economizing the natural resources of the world and hence protecting the fundamental needs of coming generations!"

Although not included in the principle, the background paper to the Statement of Identity articulates the cooperative responsibility to participate in the environmental protection of their communities. The principle presumably carries an implied imperative included in working for sustainable development of communities.

The Beginning

The ICA has concluded a nearly fifteen year process of exploring the fundamental values and principles of the international cooperative movement. In spite of the vast differences in national circumstances, industry practices, cultures and ideologies, cooperators were able to identify those characteristics that describe their unique form of human enterprise. These are the values and principles which give voice to the enduring soul of the cooperative movement. The ICA sees them as "inherently practical principles, fashioned as much by generations of experience as by philosophical thought." As we join millions of other cooperators throughout the world in adopting them, we cannot but reflect on the nature of democracy, the use and control of capital, and the critical roles of members, directors, management, staff and the community in our cooperatives.

As part of an international commentary on the new Statement of Identity, M. Paz summarized the critical importance of this effort. "Our values and principles are our self-definition, our distinctive contribution to society and the basis for our practical activities. The test of our values and principles is not only in their intrinsic morality, the logic and social justice which they embody, but in our ability to translate them concretely and realistically from social theory into social fact and to make them effective in our daily lives. It is only a courageous social movement which would dare to probe so deeply and so openly into the foundations on which it rests."

The 1995 Statement of Identity represents a remarkable worldwide consensus on basic values. Monumental as that achievement is, it is only the beginning. The profound challenge is to articulate, activate and actualize the values in our own communities. The path is clear. Now it is time to set forth.

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