

The Resilience of the Co-operative Business Model

Lou Hammond Ketilson
Director, Centre for the Study of Co-operatives

Sustainable Saskatchewan

March 2010

CENTRE FOR THE STUDY OF CO-OPERATIVES

Overview

- Co-operatives Thrive in Times of Crisis
- How Are Co-operative Banks and Credit Unions Faring in the Current Crisis?
- Why are Co-operatives Good in Times of Crisis?

Co-operatives Thrive in Times of Crisis

“The financial and ensuing economic crisis has had negative impacts on the majority of enterprises; however, co-operative enterprises around the world are showing resilience to the crisis. Financial co-operatives remain financially sound; consumer co-operatives are reporting increased turnover; worker co-operatives are seeing growth as people choose the co-operative form of enterprise to respond to new economic realities.”

Co-operatives Thrive in Times of Crisis

- UK 1840s industrial transformation - consumer co-ops
- Agricultural depression 1860s Germany - savings and credit co-ops, co-operative banks
- Great Depression 1930s Federal Credit Union Act (US) to “stabilize an imbalanced global financial system”, co-op farm supply, dairy, electricity and telecommunication
- Canada 1920s farm supply, grain marketing, credit unions
- 1930 Sweden farm credit, dairy, forestry, eggs, meat and fruit

Co-operatives Thrive in Times of Crisis

- 1970's and early 1980s W Europe restructuring of industry and mass unemployment – takeovers through employee-owned co-ops
- 2001 Argentina financial meltdown and bankruptcies workers took over 200 firms
- 1990s Finland Soviet Union collapse - 1200 labour co-ops

Research has demonstrated that co-operative businesses last longer

- More than 6/10 co-ops last longer than 5 years compared to 4/10 privately-owned firms
- More than 4/10 co-ops last longer than 10 years compared to 2/10 privately-owned firms
 - 2008 Govt of Quebec

How Are Co-operative Banks and Credit Unions Faring in the Current Crisis?

- At the time of the report (May 2009) they had experienced an increase in almost every facet of their business:
 - assets and deposits
 - volume of lending
 - membership
 - had a better rate of interest
 - greater stability (capital adequacy ratios, loan default rates)
 - few losses on investments (at “central” levels only)
 - few had needed government help

Strategies to Counteract the Crisis

- Refocusing of business – predict sell off of non-core activities
- Mergers to increase capital base
- Cost reductions
- Rediscovery of core values as member-owned businesses – making it part of business strategy

Why are Co-operatives Good in a Crisis?

“When former US Federal Reserve Chairman Alan Greenspan went before Congress in October 2008, he told American lawmakers that the economic meltdown had revealed a ‘flaw in the model’ that he had not expected – that banks operating in self-interest would not self-regulate to protect their shareholders and institutions”

Why are Co-operatives Good in a Crisis?

- General advantages derived from membership: member-owned, member-controlled, and exist to provide benefits to members as opposed to profit – has an impact on business decisions

Why are Co-operatives Good in a Crisis?

- Member – ownership
 - Tend be more risk averse
 - Not driven by profits or shareholder interests
 - Direct link of savings and loans acts as moral constraint
 - Losses at Central level not due to failure of governance – rated as low risk products

Why are Co-operatives Good in a Crisis?

- Method of capitalization
 - funded through member deposits, not reliant on capital markets for funding
 - tend to retain profits and take fewer risks
 - higher capital reserve criteria
 - deposit guarantee schemes

Why are Co-operatives Good in a Crisis?

- In comparison to banks, credit unions
 - Tend not to freeze credit
 - Have lower increases in interest rates
 - Are generally more stable due to different capitalization and lending practises

Do Co-operatives Succeed only in Crisis?

“Does this mean co-ops only succeed in a time of economic crisis? Are they a business type that people turn to only when it is needed, only to return to the dominant investor-owned model when the crisis is over?...In fact, it is the strength built up by co-operatives during the good times that helps them tide over a recession.”



Thank You!

For more Information about co-operatives:

www.usaskstudies.coop

www.socialcohesion.coop

www.usaskstudies.coop/socialeconomy

CENTRE FOR THE STUDY OF CO-OPERATIVES