

Cooperative organization in the 21<sup>e</sup> century: a new cooperative paradigm in the face of identity crisis.

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**Summary**

Cooperatives are distinct organizations. However, the structural changes transforming the market economy are creating conditions conducive to an identity crisis. These same transformations are also creating conditions conducive to the emergence of a new cooperative paradigm (NPC). This NPC is based on the ability of cooperative organizations to meet the challenges of contemporary organizations. In this article, I place particular emphasis on loyalty management (for both customers and employees). I demonstrate a natural convergence between the foundations of cooperative identity and those of loyalty. I also identify the incentives for both managers and customers (members) to give strategic meaning to cooperative values and principles. In so doing, cooperative identity (re)becomes a lever for competitiveness. To conclude, I illustrate the relevance of this concept by presenting the case of the Saint-Roch-de-L'Achigan caisse, where experimental work to implement this NPC is ongoing.

**Key words:** cooperative organization mode, identity crisis, new cooperative paradigm, loyalty and customer orientation, action research.

A. Introduction

The cooperative mode of organization is unique. This uniqueness, however, presents significant difficulties when we approach it from a management perspective. Everyone recognizes the principles and values that underpin this uniqueness, but how do we move from cooperative principles to coherent management practices that realize the potential to make a difference for members and the community?

At the same time, companies are under considerable pressure in today's environment. Cooperatives are no exception. However, these pressures often lead them to adopt behaviors borrowed from capitalist enterprises. Many even go so far as to adopt the status of a share-capital company. This is currently a major problem, leading to an identity crisis in addition to the need to adapt to the new rules of the game. It is therefore necessary to (re)visit the cooperative mode of organization in a contemporary context, questioning its relevance in light of the changing

environment within which it evolves. It is to this reflection that I have devoted my research work since the late 90s. Here is a summary of my main findings.

In this article, the 1<sup>e</sup> section is devoted to a brief introduction to the foundations of the cooperative organizational model. The identity crisis affecting (particularly) large cooperatives (in the banking, insurance and agri-food sectors) will also be discussed. This identity crisis is leading to a loss of meaning and influence for the distinctive features of the cooperative mode of organization, in terms of strategic orientations, business practices and the ability to "make a significant difference" for key stakeholders (members, employees and communities). The 2<sup>e</sup> section introduces the new cooperative paradigm (NPC), which I see as a solution aimed at reintegrating identity at the heart of the managerial framework for cooperative management that is "distinct and relevant" to current and future organizational challenges. Some of the key challenges facing modern organizations are briefly presented. The convergence between the foundations of cooperative identity and loyalty is then illustrated, with emphasis on the challenge of loyalty-centred management (of customers and employees). This is followed by an analysis of the incentives for both customers (members) and managers to restore strategic relevance to the cooperative identity. I conclude this section by highlighting the potential of NPC to address the identity crisis identified in section 1. Section 3<sup>e</sup> deals with the relevance of NPC in action. I conclude with a reflection on the main challenges, both for the further development of the NPC concept and for the validation of its relevance in action.

B. The nature of the cooperative organization, identity crisis, mimicry and demutualization...what a future!

A. Cooperative distinction<sup>1</sup>

The foundations of cooperative organization are: owner-user status, democratic direction and control, and sharing of surpluses in proportion to the member's activities with the cooperative. These characteristics are underpinned by a set of rules designed to ensure the cooperative's stability. These rules relate to : (a) equality between individual members of the association; (b) determination of the enterprise's activities by the activities of individuals; (c) distribution of results in proportion to operations carried out with the enterprise; (d) long-term collective ownership of reinvested results.

Historically, the cooperative difference takes its inspiration from its origins. Members become owners largely in response to their concerns as users. Cooperative ownership is therefore subordinate to use, and in so doing, must integrate links that are not solely economic in nature, even though its *raison d'être* is to reinforce the member's socio-economic status. What's more, the cooperative's collective (grouping of individual members of the association) and individual (users seeking to satisfy a need) nature requires the harmonization of individual and collective interests. Beyond the difference built on strengthening the purchasing power of users and rebates, the

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<sup>1</sup> These distinctive features are taken from a brochure published by the Conseil de la coopération du Québec (CCQ) in 1974.

cooperative mode of organization implies a more equitable production and redistribution of wealth insofar as it takes into account the needs and seeks the well-being of the greatest number. As such, the cooperative can aspire to a (greater) ideal of social justice.

## B. Identity crisis <sup>2</sup>

The cooperative movement is currently going through a period of fundamental reconsideration. The increased pressures brought on by economic, regulatory and technological upheavals are forcing each and every one of us to question ourselves profoundly. These transformations affect all the organizations involved, and require them to reassess their competitive advantages, and thus their ability to compete in what has become a hostile environment.

In such a difficult environment, managers and executives are questioning the ability of the cooperative organization to compete. It is also in this context that we see the emergence of new structures such as cooperative holding companies. Are the nature and structure of cooperatives sufficiently adapted to survive and meet the many challenges posed? For some, the answer is no. They prefer to transform themselves into an organization with share capital. Others reaffirm their belief in the relevance of cooperatives in such an environment. But they all have questions.

Changes in the competitive environment are not the only factors influencing the evolution of cooperatives. Various structural changes also affect the intensity of cooperative rules to varying degrees. Three of these changes are briefly described below.

*A first structural change* that took place throughout the 20th<sup>e</sup> century relates to the evolution of the very concept of the member (Thériault, 1997). From a parochial figure where each member is recognized as an individual, we have now reached a figure that individualizes, albeit often anonymously. This is a far cry from the conditions of emergence of cooperatives, where the necessary solidarity is the result of close "moral and social" ties between users who are members of the association. Faced with this concept of abstract individuals ... who define their membership according to their personal interests, have we simply moved on to a utilitarianism strictly reduced to financial considerations? Originally, the project encompassed several dimensions touching on the values of individuals, the community and so on. Faced with such an evolution, it's hardly surprising that the players involved (members and employees) are finding it increasingly difficult to recognize, if not appreciate, the cooperative distinction.

*A 2<sup>e</sup> structural change* results from the considerable increase in the size of the cooperative's membership, where it is no longer uncommon to speak of 15,000 or even 20,000 or 30,000 members. A membership of this size poses what we call the problem of collective action. To fully understand this problem, we need to consider the quasi-public nature of the cooperative. Free membership (often at minimal cost), and the importance of collective capital (reserves) make a large subset of the population the true owners of large cooperatives. Such an ownership structure enables members to

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<sup>2</sup> See Côté (2001) for more on this idea of identity crisis.

appropriate the benefits of collective action while avoiding the costs. Faced with this logic of collective action, we can expect very few member-policyholders to concern themselves with the affairs of their cooperative, a structural factor that reinforces the emergence of the individualizing figure mentioned above.

A 3<sup>e</sup> structural change concerns the interpenetration of the cooperative's fields of activity and its many competitors. At the time of the emergence of cooperatives, such a question did not arise, whereas today it does on a daily basis. Members therefore tend to compare the cooperative with its capitalist competitor on "the obvious: products and services, prices..." When they do business with their cooperative, they are only dimly aware of the specific relationship in which they are engaged. The very small amount of share capital invested is associated more with "some sort of fee" than with a conscious decision to become the owner of a cooperative capable of meeting their needs. As Thériault puts it, "the community of members is nothing more than a fictitious community born of the natural attraction of private interests". The growing difficulty of being a cooperative can therefore be explained in part by the emergence of this community of increasingly private interests, which seems to reach the member only in his or her needs as a user, leaving his or her role as owner increasingly adrift.

C. Mimicry, demutualization or revaluation of distinct identity (nature and structure): what future for the cooperative?

The various structural changes presented above can be taken up and used to generate hypotheses to illustrate the emergence of the identity crisis. The model introduced in Figure 1 leads to an important hypothesis. Given the structural changes identified above, these major trends are weakening cooperative values and principles, whose influence will tend to diminish (the top-down shift illustrated in Figure 1). At the same time, cooperatives are subject to ever-increasing competitive pressures (left-to-right shift illustrated in figure 1). Combining these two major trends, we can formulate the following hypothesis: "*all other things being equal*", we are witnessing a shift from position A (1<sup>e</sup> quadrant<sup>3</sup>) to position B (3<sup>e</sup> quadrant). While the cooperative distinction proves to be a lever of differentiation (associative and business orientations and practices) for cooperatives located in the 1<sup>e</sup> quadrant, this same distinction will have little impact for cooperatives located in the 3<sup>e</sup> quadrant.

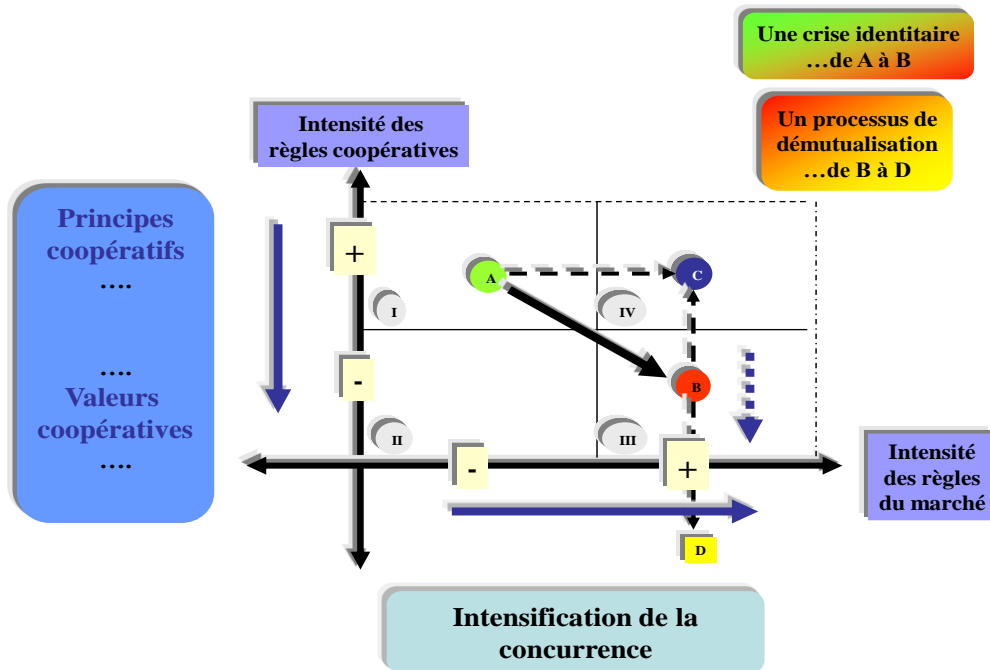
It is to be expected that cooperatives in quadrant III will experience increasing internal tensions. The loss of intensity in the application of cooperative rules means that the cooperative is increasingly faced with market rules as the basis for the necessary trade-offs, while it will tend to copy the business practices of its capitalist competitors (mimicry). Such a loss of differentiation

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<sup>3</sup> I hypothesize that cooperatives are positioned in this 1<sup>e</sup> quadrant at the time of their creation. Indeed, the members behind the creation of the cooperative need to build a cohesion strong enough to justify the pooling of resources required for the development of the enterprise owned by the association of people. These historical conditions tend to diminish from one generation of members to the next, weakening the necessary cohesion between cooperative members, between the association of members and the cooperative enterprise. (See Côté, 2004, for more details).

prompts players to question the "meaning and legitimacy" of cooperative status in a competitive context. Such a situation can only increase the likelihood of total or partial demutualization of the cooperative.

**Figure 1: identity crisis**



The model presented in figure 1 therefore allows us to identify different scenarios, as we can find cooperatives in each of the quadrants. As previously mentioned, we can see a shift from one quadrant to another (1<sup>e</sup> to 3<sup>e</sup>). It is also possible to envisage a shift from the 3<sup>e</sup> quadrant to the 4<sup>e</sup> quadrant. Positioning cooperatives in the 4<sup>e</sup> quadrant (position C) requires stronger conditions for implementing cooperative rules and principles. This position, however, requires a reconsideration of the relevance of the foundations of the cooperative organization mode when confronted with the challenges of modern management.

### C. Development of a new cooperative paradigm (NPC)

#### i. Challenges of modern organizations...revisiting the cooperative foundations<sup>4</sup>

Much has been written in recent years about the emergence of a new managerial paradigm. To situate the issues at stake, I'll draw on a few key thinkers such as Drucker, Hammer, Ghoshal and Bartlett.

<sup>4</sup> See Côté (2000) for more details on this analysis.

As Drucker points out, every few hundred years, a profound transformation takes place and society completely reorganizes itself. This translates into a new worldview, new values, a transformation of key social structures and institutions, and so on. We are living in such a period, and according to Drucker, we have another 10 to 20 years ahead of us... We are currently entering the 2<sup>e</sup> half of the era of the "information economy", where computers are used to connect people. This new economy is characterized by a compression of time, the disappearance of distances, an explosion of immaterial value and a liquefaction of traditional frontiers. In such an environment, knowledge becomes the primary resource, and it is the very nature of knowledge to change rapidly.

What does this mean for organizations? Here's what Drucker has to say. The organization must prepare to abandon what it does...and devote itself to creating something new. It will have to restructure itself around a high degree of decentralization to increase decision-making speed, itself based on proximity to the market. Skills and knowledge requirements need to change, and we need to recognize that knowledge belongs to the individual. However, these knowledge workers cannot really be supervised - they are the experts. Their loyalty must therefore be earned, which requires providing exceptional conditions for putting their knowledge into practice. These knowledge workers determine what they will contribute to the company. So the modern organization becomes an organization of equals, of colleagues...because it's made up of knowledge specialists, and, although it must still be managed rather than commanded, the organization must inspire.

In this environment, where competition is increasingly service-based and knowledge-intensive, the sources of competitive advantage become human creativity and individual initiative, rather than homogeneity and conformity. According to Ghoshal and Bartlett, such an environment calls for an organization that is flexible enough to exploit the specific knowledge, skills and aptitudes of each individual. What they call a new managerial paradigm must inspire individual creativity and initiative, and be based on a fundamental belief in people. This new managerial paradigm must also link and multiply pockets of entrepreneurial activity and individual expertise by building an integrated learning organization process. This new organizational framework is therefore based on a new moral contract where "empowered employees are responsible for the company's competitiveness, while managers support their initiatives...".

Because we know less and less what the future will look like, we need to work on putting in place the pre-conditions required to adapt to it when the time comes. Bureaucracy must therefore give way to people's aspirations, values and vision, a systemic understanding (cause and effect) of the organization, optimization of the learning capacities of its members, all this taking place in a context where employees are increasingly voluntary. The conditions for success have therefore changed radically over the past 10 years. As Hammer tells us, "when the customer comes first, the corporate culture must adapt. Customers demand speed and agility, which is impossible if we have separated knowledge and decision-making, just as if we have separated "hands, head and heart". The customer therefore demands a "complete person" to serve him".

The key words that emerge from the above presentation are: individual ability and potential, loyalty, equality, inspiration, values, visions, voluntarism, belief in people, systems thinking, ability to learn. It's by seeking to group these keywords around a managerial framework that I arrive at themes such as "loyalty", "the learning organization", "mobilization through values" and "the quest for meaning and legitimacy". More than keywords, these themes are based on a recognized conceptual framework and practices from which we can draw inspiration.

When I discuss the idea of a new cooperative paradigm, I hypothesize that there is a natural convergence between the foundations of the themes underpinning the emerging organization, and the cooperative distinction. Insofar as these themes can be linked to the nature and structure of the cooperative, we would have the elements in hand to identify the added value inherent in this cooperative distinction. If we can demonstrate an organic link between them and the cooperative distinction, it seems to me that we could restore the latter to a strategic importance it no longer has.

ii. Cooperative identity and loyalty<sup>5</sup>

The priority given to the issue of loyalty can be explained by the growing difficulty for companies to differentiate themselves through economic value (products and services, quality, price) as well as through brand. The relational aspect is therefore becoming highly strategic, hence the importance attached to the concept of loyalty. The literature on the subject of loyalty is also abundant, particularly in the context of the relational (marketing) approach, both from a conceptual and theoretical point of view (Hennig-Thurau et al, 2002, Zeithaml, 2000) and from a practical point of view (Reichheld, 1996, Bhote, 1996).

To meet the challenge of loyalty management, we need to understand its foundations (Reichheld, 1996). Here is a brief overview. First, we need to know that<sup>6</sup> companies lose customers, employees and shareholders in large numbers every year. This lack of loyalty affects company performance by 25% to 50%. Ensuring the development and profitability of a company in such circumstances becomes a real tour de force. Loyalty is therefore a key to success in an increasingly demanding economy.

Loyalty is a leadership philosophy that seeks to develop mutually beneficial management of the company's relationship with its stakeholders (Finnie and Randall, 2002, Hart and Johnson, 1999). An increase in the customer retention rate (5%) produces a sharp rise in the company's profitability and growth. This increased profitability results from the base profit associated with any activity, from

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<sup>5</sup> As introduced in a previous article (Côté, 2000), the concept of NPC is broader than the simple question of loyalty. However, I have chosen to start the implementation and validation of the NPC with this question of loyalty for various reasons. Since I'm pursuing an experimental action-research approach to validate this new concept in practice, it was necessary to reduce the complexity of the experimentation, hence the relevance of leaving aside (temporarily) the aspects of learning organization, mobilization by values, by meaning and by legitimacy. A second reason for choosing loyalty was its eminently practical nature. The literature on loyalty contains tools and a range of practices that could serve as a starting point for this experimental research. Finally, the results revealed by empirical research on the subject made it easier for a manager to decide to experiment with a "new business model".

<sup>6</sup> It should be noted that the statistics reported here reflect the situation of North American companies.

the increase in sales with each customer, from savings generated by better mutual knowledge between customer and company, from referrals of new customers by loyal customers, and finally from more generous margins given the lower propensity of loyal customers to buy only on the basis of price (Reichheld, 1996).

The concept of loyalty introduced above is based on mutually beneficial relationships, principles and values, a set of practices and a measurement system. These foundations require a constant coherence built on a discourse articulated in a vision, a mission, and an ability to adjust this discourse to action (with stakeholders). Are there any advantages specific to the cooperative mode of organization in meeting such a challenge?

The question thus posed requires us to explore the foundations of cooperative identity in order to identify points of natural convergence with the foundations of loyalty. Given the importance of these principles for credible loyalty management, it is therefore highly relevant to draw a parallel between loyalty and cooperative identity on this basis (see Table 1). This parallel is initially conceived as a function of the cooperative ideal-type, but it could also serve as a relevant frame of reference for diagnosing cooperative identity.

**Table 1: convergence between the foundations of loyalty and those of cooperative identity**

<b>Principles</b>	<b>Loyauté</b>	<b>Identité coopérative</b>
<b>1e bloc</b>	<b>1. Ethique et intégrité</b>	<b>1. Ethique et intégrité</b>
	<b>2. Confiance mutuelle</b>	<b>2. confiance mutuelle</b>
	<b>3. Transparence et accès à l'information</b>	<b>3. Transparence et accès à l'information</b>
<b>2e bloc</b>	<b>4. Proximité avec les clients</b>	<b>4. Statut de propriétaire-usager, i.e relation de marché + relation de propriété</b>
	<b>5. Coacher l'entreprise</b>	<b>5. pouvoir démocratique, i.e. AG et CA + crédibilité</b>
	<b>6. Intérêt véritable envers les clients...longtemps après la transaction</b>	<b>6. «raison d'être» de la coopérative...renforcer le statut du membre</b>
<b>3e bloc</b>	<b>7. Proposition d'affaires et valeur ajoutée</b>	<b>7. meilleure compréhension des besoins et P&amp;S + adaptés...</b>
	<b>8. Emphase sur l'inattendu + impressionner le client</b>	<b>8. ...sécurité, justice et estime de soi</b>
	<b>9. Anticiper les besoins futurs</b>	<b>9. Légitimité et capacité des membres à «coacher» l'entreprise</b>

A 1<sup>ère</sup> hypothesis therefore emerges from this convergence: cooperative identity can be a source of competitive advantage because it converges with the foundations of loyalty.

On the other hand, the structural changes observed and presented in the first section of this article are reducing the intensity of cooperative identity and provoking an identity crisis. We cannot



therefore (at first) rely primarily on democratic dynamics to rebuild the logic of cooperative action as distinct from capitalist enterprise. However, it is possible to revalorize and recreate this dynamic when we seek to implement loyalty management. In mature cooperative sectors, it is no longer primarily for reasons linked to the conditions of emergence of cooperatives that cooperative values and principles (ICAs) are still relevant, but rather for reasons linked to competitive dynamics and the need to deal with the demands of the king customer.

Following this observation, here is a 2<sup>e</sup> hypothesis at the heart of my approach: the economic leaders responsible for the cooperative enterprise have a fundamental reason to give strategic precedence to the cooperative identity because they find in it a source of competitive advantages for building an organization centered on loyalty<sup>7</sup>.

Table 1 shows only the loyalty foundations (values and principles) in the first column. The second column presents the cooperative foundations (values and principles). As we can see, the principles cited in the 1<sup>e</sup> block are identical. When it comes to being close to the customer, coaching the company and maintaining a genuine long-term interest in the relationship, the cooperative duality offers the latter a structural advantage. Indeed, the dual status of owner-user is articulated around the "customer relationship" and the "owner relationship". This duality is therefore more conducive not only to proximity, but also to the customer's ability to coach the company. It also favors long-term relationships. The 3<sup>e</sup> block highlights the importance of "penetrating the consumer's priority code" to continually evolve the company's business proposition in line with the customer's explicit and latent needs. In this context, too, we can take advantage of the dual relationship (of owner and user) between member and cooperative. What's more, the cooperative's origins make it possible to integrate concerns for safety, social justice and so on. These concerns reinforce the customer experience, itself the result of functional and emotional benefits. The cooperative mode of organization seems to me to have an advantage in this respect, given its very *raison d'être*, i.e. to reinforce the member's socio-economic status, but also to ensure a more equitable redistribution of the wealth created, and to aspire to an ideal of social justice. I'll come back to these issues later.

The NPC is therefore an effort to find a solution to the identity crisis identified in the first part of this article. At the same time, it is essential to recognize that managers are grappling with an increasingly demanding competitive environment. The two hypotheses formulated above therefore aim to link cooperative identity and competitive reinforcement through loyalty management.

### iii. Incentives for key players<sup>8</sup>

Once we accept the hypothesis of this convergence between loyalty and cooperative identity, it becomes possible to analyze managers' interest in pursuing a loyalty-centred management

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<sup>7</sup> This hypothesis certainly doesn't rule out ideological motivation to support the development of cooperative organization. I do believe, however, that it is necessary to develop an argument based on efficiency and competitive advantage, in line with the day-to-day concerns of business leaders. The advantage thus identified must be embedded in a set of practices that are recognized and consistent from the cooperative point of view.

<sup>8</sup> For more details, see Côté (2005 and 2007).

approach. In addition to questions specific to management teams, we also need to ask customers (members) about their motives and incentives for identifying and behaving as a member in the context of an NPC. Why would a customer be interested in a cooperative revival, especially if the latter offers no (or very little) difference compared to capitalist competitors? Of course, as with managers, we can't rule out ideological motives on the part of co-op customers. As with the latter, however, I don't believe that these motives alone are sufficient to rehabilitate the cooperative mode of organization.

This question of the impact of loyalty on performance in the cooperative context was investigated in a survey of Desjardins caisses<sup>9</sup>. The model shown in Figure 1 was estimated from a database of 51 caisses<sup>10</sup>. The data required to answer this question were collected from caisse general managers (strategic profile and competitive position) and from the Fédération des caisses Desjardins (surplus, income, loyalty indicators and operational inputs).

The statistical analysis carried out on this database supports the influence of loyalty on caisse performance. In a cooperative context, this model demonstrates the importance of the loyalty factor in strengthening the performance of Desjardins caisses. Thus conceptualized, loyalty can be seen as a strategic asset.

We can therefore formulate the hypothesis that any manager, faced with the pressures on business models, will have to consider the development of loyalty-centered management. Such a management approach is likely to generate growth, profitability, a leadership position in the market, an enhanced reputation... To these favorable results for the company's situation, we must add increased customer satisfaction, improved retention capacity and a lasting relationship. These are just some of the reasons that can motivate managers to embark on such a path.

In addition to the positive relationship between loyalty and performance, this model also supports the importance of a strategic profile<sup>11</sup> based on a **mission** centered on the priority of the member's socio-economic status, a fairer society, etc., on **the importance of the values** perceived by members, employees and the general public, on the **priority of customer satisfaction**, on a **business proposition** based on transparency, the ability to meet its promises, an adapted and personalized service offering, and on the ability to innovate.

These results support the postulate underlying the NPC, namely the convergence between the foundations of loyalty and cooperative identity. The strategic profile described above is intended

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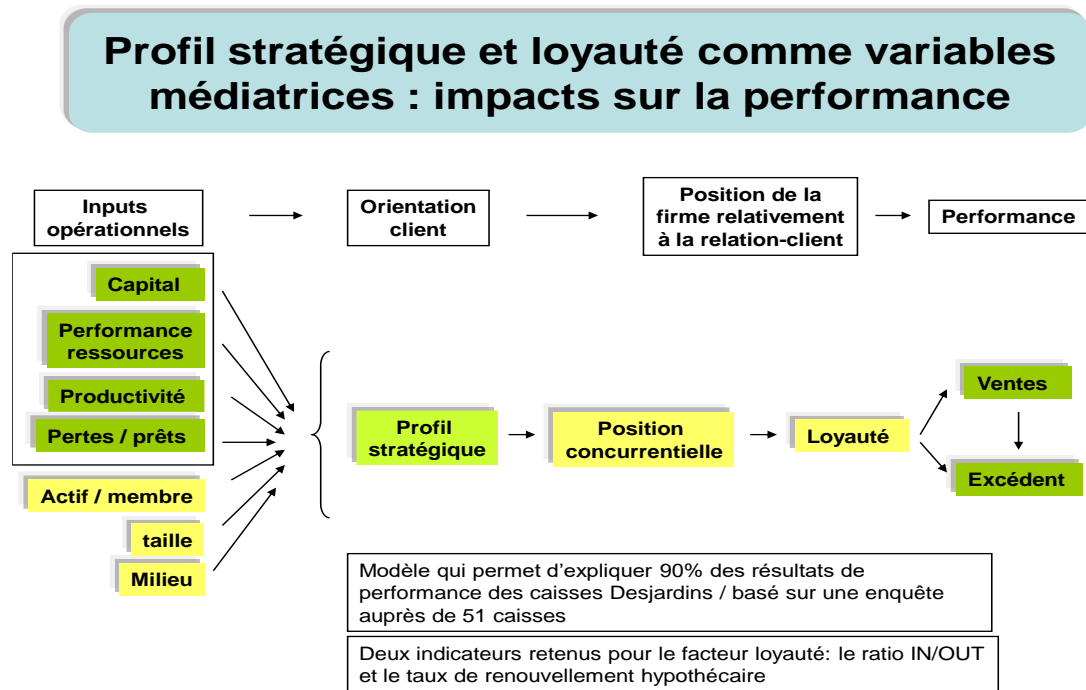
<sup>9</sup> With assets of \$144 billion (2007), Desjardins Group comprises 536 Caisse and 919 points of service. It has nearly 5.8 million members and more than 6,500 elected officers. It employs over 40,000 people. Primarily a cooperative network, Desjardins Group also brings together a network of subsidiaries to meet its own needs as well as those of caisse members. Owned by its members, Desjardins Group aims to contribute to the economic and social well-being of individuals and communities within the limits of its field of action.

<sup>10</sup> For more details, see Côté and Belhouari (2009).

<sup>11</sup> The strategic profile reflected above is the result of a factorial analysis. Only variables with a high correlation coefficient were retained.

to be consistent with cooperative values and principles, and in so doing, will have a significant and positive impact on member loyalty, all of which will have a significant and positive impact on caisse performance. In other words, a caisse that formulates a strategy consistent with its distinctive foundations will have a significant impact on its competitive position, member loyalty and performance.

Figure 2: Loyalty and performance in a cooperative context



While from the management team's point of view, the main motivation is based on the loyalty-performance link (hence the incentive to reinforce the cooperative identity as a lever for building loyalty), from the customer's point of view, the key questions are: what importance does the member-customer attach to the cooperative? If they say they have no attachment to cooperative status, it's unlikely that they'll want to invest in it. What do member-customers expect from their cooperative? To interest members in a privileged relationship with their cooperative, the latter must excel in meeting their expectations. It's also important to analyze member-customer expectations in terms of the foundations of loyalty. What links does the member-member make between cooperative status and the antecedents of loyalty? In other words, does the member-member perceive advantages in cooperative status in terms of earning loyalty<sup>12</sup>? What attitudes and behaviors can we anticipate from customers/members in the context of loyalty?

<sup>12</sup> I use the expression "earning your loyalty" because it's about showing that such a process has to start with the company being able to diagnose what it does or doesn't do in this respect. All too often, companies become complacent

Here are the main results of a survey of 500 cooperative members (2 Desjardins caisses and 2 agricultural cooperatives):

- More than 2/3 of members indicated that they attach great importance to their cooperative status;
- On the one hand, the expectations expressed underline the importance of a **business proposition** based primarily on listening, trust, transparency and the best offer from the outset. On the other hand, they also highlight the importance of an **operational benevolence** built primarily on the need to meet promises, to value people before profit, to take a genuine interest in the customer, even after the transaction, to adopt a **relational approach** based on the desire to develop a relationship with the customer, to be treated as a true partner and to maintain a long-term relationship;
- The model estimated (and presented in Figure 3) supports the hypothesis that cooperative status appears as an antecedent of loyalty.
- This same model also supports the hypothesis that loyalty is an antecedent of reciprocal behaviors that encourage customers (members) to cooperate and participate.

As in the case of managers, we can put forward the hypothesis that customers may be encouraged to become involved in the NPC from a member perspective, insofar as their cooperative knows how to earn their loyalty. This will be followed by cooperative and participatory behavior based on reciprocity.

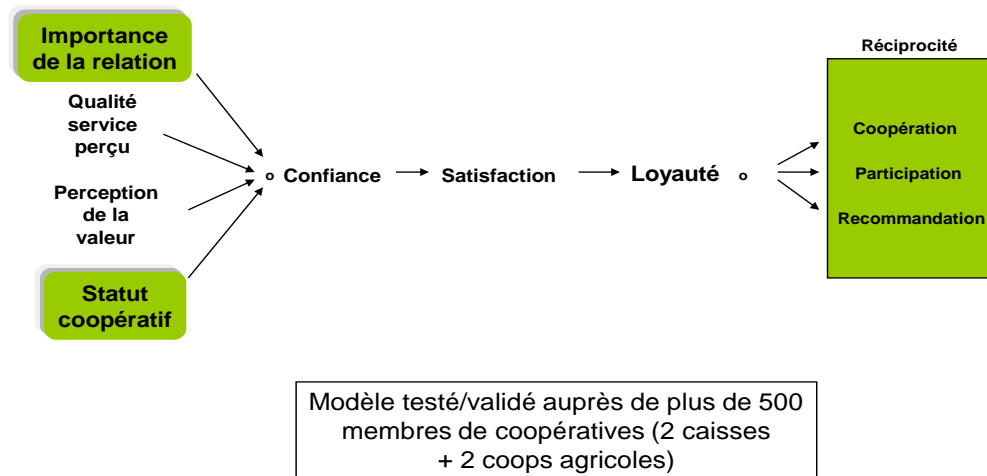
The reciprocity result identified in figure 3 leads (potentially) to voluntary customer behaviors such as: promoting the company, co-production by providing resources to increase productivity and service quality, coaching the company.

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in this respect, unaware of their shortcomings... and at the same time unable to understand why their customers are dissatisfied and so lacking in loyalty.

Figure 3: Cooperative status as an antecedent of loyalty<sup>13</sup>

## Loyauté : statut coopératif comme antécédent, réciprocité comme conséquence



#### iv. The NPC and the identity crisis

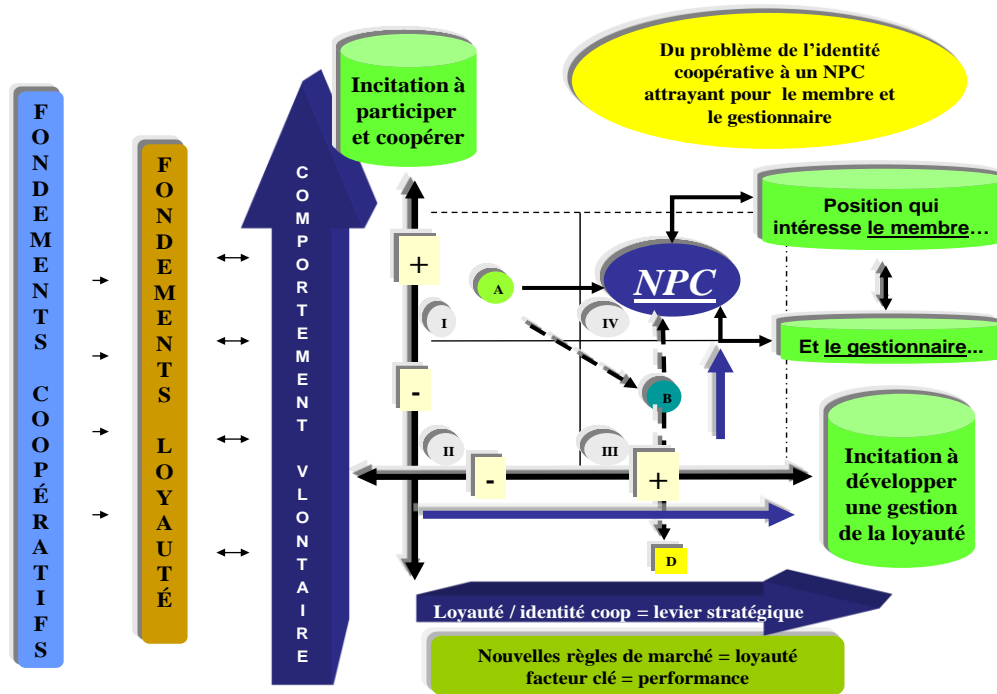
Market transformations are increasingly bringing the concept of loyalty to the forefront, for both customers and employees. What's more, a wealth of research on the relational paradigm and loyalty has helped us to understand its main foundations and its impact on business results. The link between loyalty and market leadership is increasingly recognized. In such a context of increased pressure on corporate business models (including cooperatives), managers will be increasingly invited (pushed) to adopt business practices converging with the desire to earn their customers' loyalty. The convergence between the foundations of the cooperative identity and the foundations of loyalty management therefore enables us to approach this identity as a strategic resource, potentially a source of competitive advantage. Given the competitive environment in which cooperatives find themselves in the 21<sup>e</sup> century, managers are encouraged to develop a strong cooperative identity.

While the structural changes cited in section 1<sup>e</sup> are leading to a weakening of the traditional paradigm and creating the conditions that are pushing cooperatives towards an identity crisis (and the likelihood of demutualization), we are also witnessing the emergence of conditions for the development of an NPC, emphasizing the relational approach and the need to build customer loyalty.

<sup>13</sup> This model was estimated 6 times, once for each cooperative and once for both sectors. Each of the estimations showed excellent results and supported the key hypotheses, i.e. the role of cooperative status as an antecedent of loyalty, and reciprocity as a consequence of loyalty.

Historically, cooperation and participation were part of a democratic process in which a group of people built cohesion based on shared values, goals and resources. Today, cooperation and participation are more a consequence of the member's loyalty to the cooperative. This can lead to voluntary behaviors such as company promotion, co-production of services and coaching.

Figure 4: From identity crisis to NPC



The diagram in Figure 4 illustrates this new perspective. While the new competitive environment makes loyalty a key success factor for companies (horizontal axis), the convergence between the foundations of cooperative identity and loyalty creates the conditions for voluntary behavior among members (vertical axis). These voluntary behaviors give greater importance to cooperative values and principles, and encourage customer (member) participation and cooperation. In this way, managers can be just as motivated to take advantage of the cooperative identity as customers. In this way, it becomes possible to envisage a way out of the identity crisis and design an evolution towards the 4<sup>e</sup> quadrant (figure 4), where the cooperative organization mode can be renewed from a different perspective (NPC).

#### D. NPC: from concept to action

In this article, I present the main findings of my work on identity crisis and the emergence of an NPC. I argued for the existence of incentives specific to<sup>14</sup> cooperative actors (member-customers and managers). These incentives are articulated on the foundations of loyalty-centered management (or customer orientation). To demonstrate the existence of this NPC in action, I initiated action research in January 2000 with a Desjardins caisse<sup>15</sup>. This action-research focused on the implementation of a customer orientation

It would take too long to go into detail about the implementation of a customer orientation (based on loyalty) in this article<sup>16</sup>. I'll just briefly present the main findings of my work at the Saint-Roch-de-L'Achigan caisse since January 2000.

i. From concept to action...implementing customer orientation

The prerequisites for success are: a constant commitment on the part of senior managers, who are responsible for transmitting the values and beliefs at the heart of a customer-oriented strategy. This commitment must be constantly communicated to everyone in the organization. Beyond this sustained commitment from top management, it is essential to ensure the systematic involvement of all company departments, both in generating and disseminating market intelligence, and in developing an adapted business proposition. A customer-focused strategy is by no means the sole responsibility of the marketing department. It is therefore important to ensure a climate of collaboration between the various departments, minimize conflicts, accentuate connections and facilitate contact between employees. Finally, we also need to design decentralized organizational systems, with employee remuneration based on an evaluation that integrates market factors such as customer satisfaction, over and above financial criteria.

The business system designed in this way must incorporate fundamental values and principles such as uncompromising ethics and integrity, mutual trust, transparency and access to information, close proximity to the customer, and allowing the customer to "coach" the company. You must also show genuine interest in the customer after the sale. Finally, we must deliver a high value-added business proposition, focus on the unexpected and anticipate future needs. These values and principles must be integrated into all business practices, the strategic vision and the customer promise, and eventually transcend the organization's culture.

To ensure the successful implementation of a customer-focused strategy, it is essential to develop a set of practices that ensure a high degree of consistency in the company's day-to-day

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<sup>14</sup> Certainly, (elected) directors play a key role in the development of an NPC. I haven't explicitly addressed their role to date, but this will have to be done. On the other hand, as part of my action-research (at the Saint-Roch-de-L'Achigan caisse) to validate the relevance of the NPC's key ideas, elected officials were continually taken into account and involved throughout the process.

<sup>15</sup> A 2<sup>e</sup> caisse and two agricultural cooperatives have also taken part in this action research in recent years, but for a shorter period for various reasons. Various cases drawn from these experiences have been published. See Côté (2007, 2008a, b)

<sup>16</sup> See Côté (2009b) for more details.

customer-focused activities. The integration of values and principles into business strategy and practices will be facilitated when the company builds a strategic vision and a customer promise widely shared by all employees. The "customer-centric" strategy requires a capacity for differentiation based on operational excellence and the ability to meet customer expectations consistently, on operational benevolence and the ability to place the customer's interests ahead of those of the company, and finally on the ability to resolve problems that may arise during and after service. In addition, superior market sensitivity skills and superior customer liaison skills are required.

ii. The caisse de Saint-Roch-de-L'Achigan...a customer focus

Founded in 1934, the Caisse de Saint-Roch-de-L'Achigan serves a semi-rural community located some 40 km north of Montreal, in the Lanaudière region. With assets of \$126 million, the caisse offers a full range of financial products and services to all its 5,000 customers (members). Business volume (cumulative loans and savings) generated by all customers amounts to \$243.7 million. At the end of 1999, the caisse's business volume was \$132.9 million. Some thirty employees work at the caisse to meet the needs of its members. The caisse de Saint-Roch is a member of the Desjardins Group.

The process for implementing such a strategy involved obtaining the approval of the caisse's Board of Directors and the support of its employees. Employees were invited to diagnose the caisse's business practices in relation to loyalty-based management. This diagnosis proved to be an essential guideline for the first years of the experimental approach. Using the results of the diagnosis as a working guide, the General Manager was able to move the caisse towards a set of coherent practices to earn the loyalty of employees and customers.

Throughout the process, customers were invited to express their opinions on the caisse, and make their (in)satisfaction known. Individual interviews were conducted on a regular basis. In addition to individual interviews, focus groups were organized on various themes. Finally, customer surveys were conducted to document customer perceptions of the various key levers of a customer orientation strategy. Given the importance of employee involvement in such an approach, it was also essential to assess employee perceptions of the key components of customer-centric management.

The caisse's differentiation strategy is based on a highly consistent set of values, as perceived by both customers and employees. These values, confirmed in the strategic vision, are shared by all internal players (managers, general management, employees) and customers. This strategy is also based on the priority given to customer satisfaction. Finally, the caisse differentiates itself through the quality of its **business** proposition to its customers.

Customer perceptions of the execution of the key elements of this strategy have been the subject of various surveys, particularly in 2007 and 2008. Table 2 summarizes the main findings of these surveys. The priority given to customer satisfaction by employees is supported by 81% of respondents. They also confirmed the quality of the caisse's business proposition, with 74%



believing that the caisse offers excellent service, 91% believing that its service offering corresponds to customer needs, 85% believing that it offers original solutions, and 76% recognizing that it facilitates transactions.

**Table 2: Satisfaction survey:** % of respondents strongly (6) or totally agree (7) with the statement, on a scale of 1 to 7

<b>Perception of the business proposition</b>	
1. The caisse sets industry standards of excellence (*)	59%
2. The caisse offers excellent service (*)	74%
3. The cash register facilitates transactions (*)	76%
4. My advisor makes me a service offer corresponding to my needs (**)	91%
5. My advisor offers me original solutions (**)	85%
6. The quality of my contact with my consultant was excellent (**)	96%
7. My advisor offers me clear choices in accessible language (**)	91%
<b>Focus on customer satisfaction</b>	
1. Employees feel responsible for customer satisfaction (*)	81%
2. The caisse makes a significant difference to the financial well-being of its customers (*)	73%
<b>Market intelligence</b>	
1. My advisor listens to my needs (**)	94%
2. My advisor has the ability to pay attention to detail (**)	93%
3. My advisor understands how I feel (**)	92%

\* Result based on a "customer promise" survey of 300 customers carried out in spring 2007.

\*\* Result based on a "service delivery" survey of 200 customers in autumn 2007 and spring 2008.

In the context of a "customer-focused" strategy, it is also fundamental to take into account the employee relationship, their level of commitment, mobilization, etc. We need to analyze the quality of the internal environment, the attitude of employees towards their work, their perception of the organization's ability to execute and deliver a high-level business proposition, etc. We need to analyze the quality of the internal environment, employees' attitude towards their work, their perception of the organization's ability to execute and deliver a high-level business proposition, etc. Building a stimulating workplace will be made possible by a "mobilizing" approach to human resources.

We noted earlier that the key levers of mobilization (leadership quality, participative management, HRM practices and employee empowerment) are present at the Saint-Roch caisse. This is confirmed by a recent survey. This study, carried out (by the consulting firm Hewitt) in autumn 2007, shows that the Caisse ranks among the employers of choice, with an overall score of 78%. This result is higher than the average for the financial sector (66%).

In terms of performance, the caisse shows stronger growth and retention capacity than comparable caisses in the network, while profitability is (slightly) lower, particularly due to policies of

transferring value to its customers (the caisse is a cooperative) and a less profitable agricultural market in terms of net income.

iii. La caisse de Saint-Roch: from customer orientation to NPC

The cooperative distinction introduced earlier identifies concern for the user and the enhancement of his or her socio-economic status as central to the raison d'être of this type of organization. The resulting mission leads to a more equitable redistribution of wealth (based on use rather than capital) and an ideal of social justice. On the other hand, this distinction is struggling to establish itself, given the structural changes that are weakening its scope. However, transformations in the economy (and in market dynamics) are creating conditions conducive to the emergence of the NPC, i.e. the key role of knowledge, decentralization, proximity to markets, expertise and the need to rely on individual creativity and initiative, belief in people, the learning organization, the new moral contract based on the ability to inspire, voluntarism and the need to call on the "whole person...hands, head and heart". The loyalty of the players is therefore an indispensable asset in ensuring business success.

Having identified the convergence between the foundations of loyalty and cooperative identity, I have also highlighted the incentives on which to build to motivate key players to invest (explicitly or implicitly) in this NPC. For managers, the link between loyalty and performance is crucial. For customers (members), the interest in cooperative status, the expectations they have of their cooperative, the causal links between cooperative status and loyalty, and the resulting voluntary behaviours, support the motives that bring them back into a logic of cooperation and participation.

In the previous section, I demonstrated that the Caisse de Saint-Roch had successfully implemented a customer orientation. Member satisfaction levels have risen considerably: in 2008, 75% said they were "very satisfied" with their cooperative's services. The same proportion said that the caisse "makes a significant difference to their financial well-being". From the employees' point of view (see table 3), the status of employer of choice also confirms the high level of commitment.

**Table 3: Engagement survey:** respondents' average score for the statement, on a scale of 1 to 7

<b>Perceived level of employee commitment</b>	
1. I <b>think I'll still be</b> working for the caisse in 2 years.	6,44
2. i'm <b>proud</b> to work for the caisse	6,61
3. I believe this organization <b>deserves my</b> commitment	6,39
4. I <b>would be very happy to</b> continue working with this organization for the rest of my career.	6,44
5. I <b>enjoy talking about this organization</b> with people who don't work here.	6,22
6. In this organization, I feel like I'm <b>part of the</b> family.	6,28
7. I feel a <b>strong attachment</b> to my organization	6,00

\* Result based on a survey of 30 employees carried out in spring 2007.

These results confirm the **very high level of commitment** shown by caisse employees. This commitment is also reflected in the strategic vision developed jointly by employees, the management team and members of the Board of Directors. The caisse's strategic vision makes explicit its priority values, i.e. respect, mutual aid, partnership, reciprocity, trust, transparency and recognition. The vision is also based on the desire to be leaders in customer loyalty by pursuing a goal of excellence that makes them the benchmark for their customers. This quest for excellence requires constant investment in people development, an essential lever for continually enhancing the quality of their services, and thus remaining proactive in the face of rapid industry change. Finally, the vision statement expresses the caisse's determination to be a pivotal player in its community.

To reinforce its ability to operationalize its strategic vision, a "customer promise" was drafted at the checkout. The key elements of this customer promise are (1) access to a team of experts, committed to a lasting relationship with their customers, (2) a focus on customer needs rather than the sale of financial products and services, (3) impeccable service and advice that will make a difference to their customers' well-being, (4) a service offering based on access to choices in line with the customer's needs, and a high degree of customer control, (5) a service offering that is respectful and fair to everyone, with fair and competitive prices, (6) a community commitment and a desire to participate in the prosperity of the environment in which they operate.

The caisse's results demonstrate the high level of loyalty (and satisfaction) of its members, as well as the commitment of its employees. Performance over the last 8 years has also been very good, mainly in terms of customer retention (both savings and credit), but also in terms of growth and profitability (given the socio-economic context in which it operates). The strategy we have formulated and implemented is based on the key foundations of our cooperative difference. These results are therefore entirely in line with the expectations expressed in the NPC. The caisse's commitment to the community is also widely recognized by its members. In fact, the 2007 survey (300 respondents) showed that for nearly 70% of members, "the caisse makes a major contribution to community development". Over 75% of members consider this commitment to be very important.

In order to strengthen the NPC's presence at the caisse, we are currently designing and implementing a structure for member cooperation and participation (beyond the General Meeting, attended by around 6% of members each year). A representative group of around 150 members will be selected (by invitation) to strengthen the dialogue between members and the caisse. A two-way process will be developed to inform, consult and educate this representative group. This representative group could then play a significant role in coaching the caisse, enabling it to strengthen its business proposition to its members. This work is currently underway.

## E. Conclusion

The transformations to which cooperative organizations are subject are driving them to mimic the practices of their capitalist competitors. As a result, cooperative leaders (elected representatives and managers) are finding it increasingly difficult to distinguish this type of organization and build a

difference that is recognized and valued by member-customers. The resulting identity crisis is coupled with pressure to demutualize and change status. The development of a new cooperative paradigm (NPC) is one way of restoring the strategic importance of cooperative status in this context. This NPC is based on a convergence between the foundations of cooperative identity and the foundations of loyalty. It also identifies the incentives that reinforce the relevance of this concept as a potential solution to the dual problem of identity crisis and competitive intensification, and the need to review its business model.

The action-research carried out at the Saint-Roch-de-L'Achigan caisse enabled me to validate this NPC in an experimental context. Although certain aspects of the NPC remain to be developed in concrete terms, the facilitating conditions have been grouped together so that we can "close the loop". After several years spent developing this NPC in theory and in action, I can only hope that this experiment will be repeated in different contexts, so as to be able to validate its relevance and generalize the results.

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