Co-operative Networks: A New Form?

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Executive Summary

Research undertaken in co-operatives, networks and co-operative networks, shows that, organizationally, they display a wide range of collaborative arrangements.

This report provides an overview of the way organizations establish relationships with other organizations. It focuses on networks and co-operative networks.

The Survey

We surveyed seventeen different collaborative arrangements. Results show that in the case of business networks collaboration is usually undertaken to obtain a benefit, mainly through the export of a product. Business networks tend to have a lower number of members, in general they take the form of joint ventures, and stick to their strategic plan. At the same time, network members recognize the existence of conflict in the network.

In contrast, co-operative networks tend to be: formed to take advantage of the co-operative benefit of no-liability; do not issue shares; do not trade, and do not pay corporation tax. The aim of the collaborative relationship is to share information. Co-operative networks tend to have a larger number of members and they tend not to follow their strategic plan. Data shows that, in general, their members' lack knowledge of the principles and values of co-operatives; that there is a high level of trust between members, and that members do not recognize the existence of conflict in the co-operative network. While co-operative networks are new forms of organization they do not share the values and principles of co-operatives, as traditionally understood.

The role of the broker, and the chair, in both of the collaborative types, co-operative networks, and business networks, are vital as critical success factors for the network's continued existence. The broker is important in the early life of the relationship, while the role of the chair is important in its everyday functioning, once it is established.

Lack of resources, lack of membership, lack of interest, and lack of confidence, are the most important elements leading to the collapse of a co-operative network.

Summary of Findings

- The majority of co-operative network members remain the same as the founder members.
- In the majority of cases, it was the broker who invited organizations to become member of a co-operative network, but some other agencies also had a role in the process. Once established, co-operative networks tend not to involve brokers. Even where co-operative networks no longer involve a broker, members express satisfaction with the broker's past contributions in terms of the motivation, contacts, and information, that they provided to members, but they are less satisfied with the brokers role in helping them gain access to funding, technology and facilitative skills.
- Co-operative networks tend to have a large number of members, because of their nature as vehicles for creating synergy.
- Co-operative networks do not share the values and principles of co-operatives, as these are traditionally understood.
- The co-operative network members' expectations about the network, and what it can achieve, relate to increased access to knowledge and new markets.

- All co-operative networks agree to a strategic plan. The strategic plan requires members to commit time and money to the co-operative network as basic resources for the network. However, it is important to mention that hardly any co-operative network follows its strategic plan.

- More than 50% of members did not have a previous relationship with other members prior to the formation of the co-operative network.

- Members think that the co-operative network should not admit competitors as members, but at the same time, they think they should discuss the existence of competitors in the co-operative network.

- Collaboration between members has increased over the life of the co-operative network.

- Members do not think that there is a central organization whose presence is critical for the survival of the co-operative network. All the members are important, but not necessary.

- The level of conflict perceived between co-operative network members is very low. There are no issues that are difficult to raise. Members have open discussions in monthly meetings.

- There is a perception of equal contributions by co-operative network members.

- Members are undecided as to whether the network meets their expectations but are more inclined to think that they are less than satisfied.

- Members believe that they can share organizational problems with other co-operative network members. Behaviourally, however there is little evidence to support this. They do not contact other members for help when they have a business problem. Member contact is basically related to monthly meetings, while occasionally they make telephone contact. The co-operative networks are not very ‘active’, one might say.

- Co-operative network members consider that they can share information with other members. Members are very satisfied with the ideas that they have received from other members of the co-operative network.

- There is a high level of trust between co-operative network members. They strongly believe that members will not behave opportunistically or take advantage of each other.

- There is a perception in the co-operative network that members will consider absent members' opinion when decision making is done. Decision making in the co-operative network is made by a majority of votes.

- Members think that not any one can initiate actions on behalf of the network, that this is something that only the broker or the Chair can do.

- The majority of members are not convinced that their co-operative network is effective.

- Members share the information received from the network with their employees.

- Members think that their organization's decision-making is not constrained by being in the co-operative network and they do not perceive any risks attaching to being a co-operative network member.

- Members think that they would be involved in another co-operative network and that they do not have any regrets at having been a member.

- Member organization's performance has been positively affected by being in the network through accessing knowledge about the following: product quality; product innovation; access to technology; product diversification, and market innovation.

- In the majority of the co-operative networks there are no common projects that the members share in.

- The main benefits that the members gain from other co-operative network members are knowledge and technology. At the same time, these are the benefits that they see themselves providing to other members.

- Co-operative network members do not take advantage of information technology and the the majority of them do not have access to the internet, e-mail or other web-based technologies.

- The co-operative network has made it easier for members to gain knowledge from outside agencies through guest speakers and participation in various events.

1. Introduction

Contemporary changes in the way organizations co-operate with other organizations are significant. Many focus on enhanced collaboration. Different types of collaboration include co-operatives, networks, and co-operative networks as forms of collaboration among individuals and organizations.

This report is based on a survey carried out for the Department of Fair Trading in 1996-97 on co-operative networks and business networks as different forms of collaboration. Seventeen organizational collaborations participated in the survey. The report provides an overview of the way organizations establish relationships with other organizations. Its purpose is to contribute to the understanding of co-operative networks as form of organizing, at a time when co-operatives are seeking new forms of collaboration.

For the purposes of this survey, the forms of collaboration empirically studied are:

- Networks
- Co-operative networks

as well as researching literature on the philosophy and practice of co-operatives. However, no 'traditional' co-operatives were empirically researched for this project.

The survey collected information on characteristics of the relationships, number of members of the relationship, levels of conflict within the relationship, understanding of the principles of co-operatives, and extent of organization learning. The topics covered include:

- Trends in collaborative movements
- New forms of organization
- Co-operative networks success
- Co-operative networks failure

2. Trends in collaboration

Traditionally, co-operatives are established by people pooling their efforts in a collective organizational endeavour as members in a common enterprise. Typically, they have been established in relation to a c*o-operative identity*, and *seven co-operative principles* (ICA News, No. 5/6, 1995). A co-operative is an organization whose identity is that of '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.' Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others. Recently, these have found expression through the seven principles of co-operation (See Appendix 1).

The Registry of Co-operatives, located in the Department of Fair Trading, provides the legislative framework for co-operatives in New South Wales. This is the context in which existing co-operatives operate and within which new co-operatives must be formed. The legislative framework was most recently revised in the Co-operative Act (1992). In the past, co-operatives came principally from the rural sector, formed out of 'a co-operative spirit' shared between primary producers within a regional area. Others were a mechanism for achieving equity in co-operation between many small independent owners who wished to pool some resources, such as a call-service for taxi-drivers, for instance.

More recently, a 'networked' form of co-operation between primary businesses already well established as 'for-profit' enterprises have developed. The difference between these and traditional co-operatives is that that these network co-operatives are almost incidentally co-operative. Expressively, the members profess no commitment to co-operative values. Organizationally, co-operative commitment is slight, rarely going much beyond the fact that this form of collaboration does not compromise their ownership equity.

Eight of these co-operative networks exist at present. Each of these co-operative networks is a second-order co-operative of businesses that are not themselves co-operatively established or organized. These organizations deal with the other organizations that form the co-operative on a special basis. As single organizations they have established strategic relationships with these other organizations, premised on collaborative relationships. Co-operation should, in principle, make these organizations more competitive and adaptive, to the extent that they are able to pool resources and knowledge, and thus extend their capacities and competencies to market their product or service. To achieve greater market access is the reason behind the co-operation.

According to Thorelli (1986), co-operating organizations consciously design their operations so that a range of their activities deliberately overlaps in distinct domains. Such domains may be in different dimensions:

- product (or service) jointly offered in their environment
- the same clientele being served
- the same functions performed (mode of operating)
- the same territory being serviced
- time-sharing: competitive markets may be served collaboratively by people and organizations sharing the same time-space

A *co-operative* is a particular form of organization where agreements on co-operation are reached to achieve social objectives. The social pact comprises the rules that conduct the life in the co-operative and includes the obligations and responsibilities of the members. A co-operative includes features of:

- autonomous and voluntary association
- common economic, social, and cultural needs and aspirations
- joint-ownership
- democratic control

3. New forms of collaboration: Networks

Different forms of co-operation can be established other than co-operatives. Joint ventures, strategic alliances, and networks are some examples.

According to Bartol et. al. (1995: 99) a ‘*Joint venture* is an agreement between two or more organisations to jointly produce a product or service.’ The main reasons businesses form a joint venture are to reduce costs and risks, often through developing new technologies. In general, organizations involved in joint ventures take mutual advantage allowing them to go together in an activity that otherwise would be difficult to achieve if organizations were alone. Usually joint ventures preserve existing ownership relations rather than jointly consolidating them.

A *strategic alliance* involves ‘co-operation between two or more independent firms involving shared control and continuing contributions by all partners’ (Yoshino & Rangan 1995:17). For Parkhe (1991:581), strategic alliances are ‘relatively enduring interfirm co-operative arrangements, involving flows and linkages that utilise resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm.’

The concept of ‘*network*’ is one that has been used frequently in organization theory in recent times. Network refers to a group of organizations (the members of the network) that share resources, that are related to each other in a long-term relationship that links them in the pursuit of some common goals, and which has specific dependence relations with each other.

Many definitions of *networks* have been proposed. For Jarillo (1993: 7) a strategic network is ‘an arrangement by which companies set up a web of close relationships that form a veritable system geared to providing products or services in a coordinated way.’ Thorelli (1986: 38) considers that ‘ . . . a network may be viewed as consisting of ‘nodes’ or *positions* and *links* manifested between

the positions.' Anderson et al (1994: 2) follow these definitions in saying that 'a business network can be defined as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualised as collective actors.'

Organizations have to be a legal entity to do business. For-profit businesses that wish to network find the co-operative form easy to adopt. By becoming co-operatives, individual organizations achieve a legal status that represents them in a larger corporate form, which does not threaten the individual integrity of the respective businesses. This can be particularly important where the co-operative forms itself primarily to market the goods or services of its constituent organizations collectively, or is oriented principally towards export.

What benefits and costs are associated with the network form of collaboration?

We can summarize the costs and benefits associated with the network form of collaboration in the following table.

Benefits	Costs
Cost reduction	Drain on members time sharing expertise
Opportunities for specialization	Increased bureaucracy
Risk-spreading and resource sharing	Reduced latitude to act proactively in the market
Product market scope	Increased dependency on shared patterns of behaviour
Market development	Financial commitment
Enhanced flexibility	Sharing of expertise with others
Improvement of management and power base	Reduction of management control
Specialisation	
Gaining access to critical resources	

Adapted from Buttery & Buttery (1994). The costs and benefits are not interactively paired: that is, the cost and benefit that are in the same row are independent of each other, not related. It is a table of two columns, in other words.

While the 'costs and benefits' form part of the research agenda for this Report it is difficult to understand the context of these without grasping some of the specificity of co-operative networks, and how they differ from some other forms of collaboration.

'Soft' and 'hard' networks

A network can be more or less structured, according to the extent of interactions between its members. A key distinction in understanding networks is between that of a 'soft' and 'hard' network:

- A 'soft' network represents an informal group or a 'loose' arrangement. It is a network where ideas are discussed among participants with the first aim being the interchange of information. In these soft networks resource commitment is minimal.

- In a 'hard' network the level of commitment and obligation is set out in written form. By contrast to a soft network it is a much more formal way of organizing relationships. Where there are relatively few network partners there is little difference between a hard network and a joint venture. The following table shows some of the main differences between the two types.

	Type of Network	
	Soft	Hard
Typical form of organization	Co-operative	It can take different forms including Joint Ventures, Strategic Alliances, Networks
Desirable Size	15-25	3
Minimum legal number of members	5	3
Aim of collaboration	Sharing of information, creating synergy	Development of new products or services, expansion markets. Export oriented
Potential Funding Scheme	Mainly from co-operative network members	Partially from members and partially from government

Co-operative networks are generally 'soft' networks, that is they stress information-sharing rather than export-orientation. Watts (1995) defines a network co-operative as 'a group whose primary activity is the provision of information and services to members, via networking methods.' The salient characteristics of network co-operatives, according to Douglas Watts (1995), are that they: do not trade, except in information, have no liability, do not issue shares, and do not pay corporation taxes.

Why are co-operative networks established? The basic aim of a co-operative network is to create synergy between the network members through meeting face-to-face and sharing information. The co-operative form is not one that they have spontaneously adopted so much as a device that consultants have suggested as a structure within which trust may be developed without exposing the firms' liabilities to risk.

Network co-operatives are a vehicle by which network formation between previously existing private and for-profit businesses may be legally extended without adding to the liabilities of their owners. In this respect they differ from older forms of co-operative that were established from the outset, at the primary level, as a not-for-profit entity. One may question if these forms of collaboration are co-operatives. The answer is no, they are collaborative agreements, but they are not co-operatives in the traditional sense, as we described it earlier.

That may explain why we found little or no recognition of the seven principles of co-operation or of co-operative philosophy amongst the networked co-operatives members. This demonstrates that the members of these network co-operatives are not cognisant of their membership of the co-operative movement in any way that is salient for them. Being a co-operative is a 'flag of convenience': a matter of badging more than conviction. The implication is that co-operative networks generally will not follow the philosophy of co-operatives.

4. Methodology

The different research activities undertaken in the process included the adoption of plural research approaches in order to have more than one bearing on as many substantive issues as possible. First, we began the research process with an extensive literature search and review; second, we participated in a number of relevant congresses; third, from September 1996 to the present, we have attended monthly meetings in different networks. It is in these meetings that members discuss those issues that are most important for them at that moment. It is here where one can perceive and analyse the dynamics of a network.

The main instrument used in the collection of data was a questionnaire that went through several development stages before being stabilized on the final form. One of the reasons for the different iterations has been alluded to already. The members of the co-operative networks were not aware of their membership of the co-operative movement. Hence, a series of questions that were designed to test the degree of their commitment to co-operative principles had to be abandoned: the questions were not meaningful. The respondents were unable to relate these questions to their life-world.

The significance of the non-recognition of these co-operative values items is not clear. Without a comparable survey attempt on the broader co-operative movement it is difficult to interpret these results. Participation by members of more traditional co-operatives in various Co-operative Conferences would suggest that these values would have achieved some recent broadcasting within the co-operative movement, as traditionally conceived. If this is the case, and we believe that is, then the non-recognition of these values is a significant non-datum, especially for the role of the Registry of Co-operatives as an advocate of the co-operative form of enterprise.

We also collected data through direct observation. We were fortunate to have been involved as observers in the formation of one co-operative network. As

observers, we were analysing the process of synergy creation in the network. The initial meetings started late in 1996, under the sponsorship and promotion of Liverpool Council. The first formal meeting of this co-operative network occurred in February 1997, from which date members have met monthly. We have been present at the meetings since the formation of the network, as well as at some of the early meetings that preceded the network formation that Liverpool Council facilitated. Liverpool Council took an early and important role in developing co-operative networks in metropolitan Sydney, under the aegis of the Economic Development Unit of Council. We also attended different general annual network meetings as observers.

4.1 Qualitative data

We conducted various face-to-face interviews with different actors involved in networks such as: network chairpersons, network members, brokers, staff of the Registry of Co-operatives of New South Wales, staff members of AusIndustry Business Networks Program, staff of Australian Business Limited (Former Australian Chamber of Manufacturers), and staff of the Liverpool Council.

4.2 Quantitative data

We developed several different questionnaires that we piloted with network co-operatives members. After the initial interviews, we realised that the questionnaire should be modified, as we realized that the detailed knowledge of co-operatives that the members of the networks had was either very slight or non-existent. Realizing that it was a mistake to assume that they saw themselves as conscious members of the co-operative sector we had to reframe the questionnaire accordingly. Working from the literature, and from the experience gained in the research interviews undertaken, we developed further questionnaires, which, in the final form, shifted some data collection items to a more closed-schedule quantitative format. This final questionnaire contained 200 items, both qualitative and quantitative.

The changes allowed us to contact a bigger number of networks; do better interviews because they were less time consuming for the interviewees, and produce better quality data. With the information collected, we have been able to conduct subsequent personal interviews with a better understanding of networks and their members.

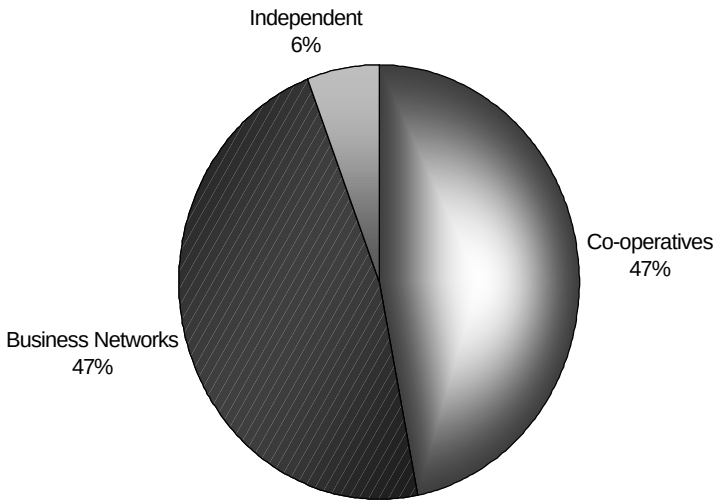
We contacted 17 Networks in the manufacturing and in the service sectors, made up as follows:

8 Co-operative Networks in NSW

8 Business Networks within Australia

1 Independent Network in NSW

Figure 1: Research sample



5. Results

5.1 Configuration

We found that network co-operatives do not necessarily need brokers to establish themselves as such an entity, but that empirically they have tended to. Only one

case that we investigated reportedly was not formed by a broker. Brokers do not just materialize from the environment. Specific institutional agencies exist in and around business arenas that work to bring brokers and putative network members together. Agencies that have an interest in network formation include Local Councils and Local Government entities, AusIndustry, the Department of Fair Trading and other Government Departments, as well as Industry Associations.

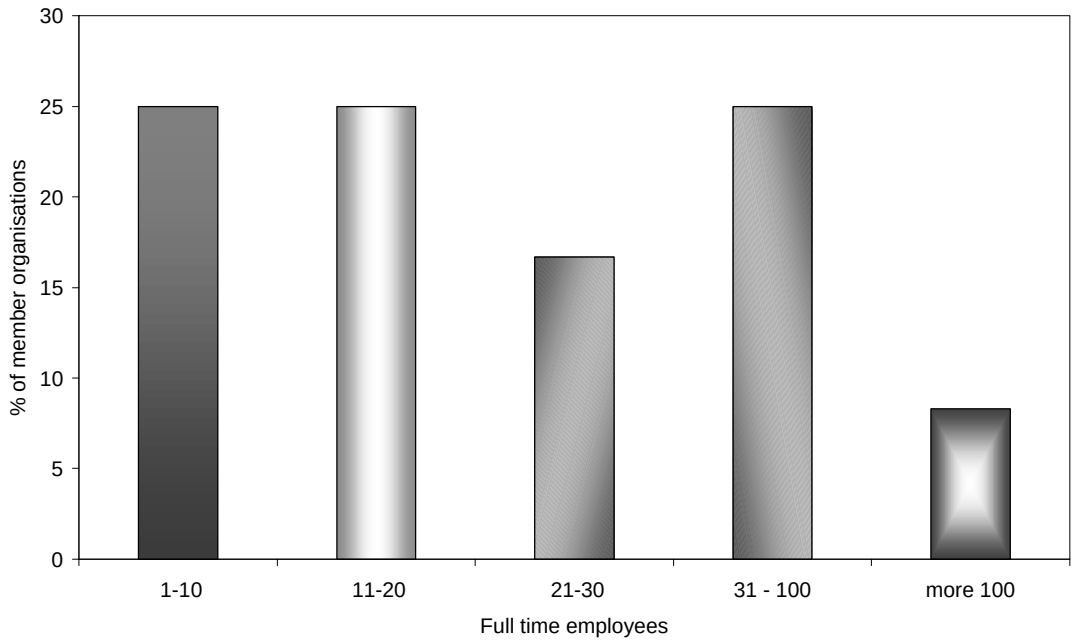
Typically, brokers approach firms or agencies, usually firms first, proposing a network structure for enhanced collaboration between them. Often, external agencies provide funding for the formation process. Network membership fees range from $500 - $1,000 dollars per year and are used to cover administrative costs associated with the network. These costs include professional fees to consultants.

Once the first formal meeting takes place the members hold an election for the Chairperson of the network and the broker ceases to act in the role of broker. Prior to this s/he will have contacted the Department of Fair Trading to register the name of the co-operative. To achieve registration a strategic plan will need to have been adopted by the members; usually the broker prepares this in a two day meeting with the potential members of the network. The broker will present the co-operative form as the lowest-cost and least-risk structure for the members. Such presentation is a key reason for networks adopting the co-operative form. The broker typically does not elaborate on co-operative philosophy or values at this stage. It seems evident that the members do not understand what the co-operative structure entails, in terms of the movement, but do perceive that there is no risk to their business with this kind of structure. Members accept the co-operative structure, but, as we have said, in the majority of cases they do not have any understanding of the principles and values of co-operatives.

In the sample the number of members in a network varied empirically from 3 to 47, with the most common number being 5 members. Co-operative networks and business networks differ in this respect. The former tend to have a larger number of members, because they are less oriented to a joint-venture production or service and more oriented to the 'soft' network activities of building synergies and learning from the network. Business networks tend to be smaller, more similar to joint ventures, often created for a very specific purpose, with an export-focus.

The size of the organization members of both co-operative and business network typically is small: on average they have less than 25 employees. Prior to the establishment of the network, there had not been a relationship between 25.9 % of members.

Figure 2: Full time employees in members organisations



While more than two thirds of members are network founders (76.7%), most of the networks researched experienced some turnover in membership. Even during the formation process turnover occurs: new members joined and foundation members left the network. Also, once the network has already been established, movement in and out of the network occurs. Only a third of the

networks have maintained the initial number of members, while the rest had experienced changes. The process of gaining or losing members seems not to have had a negative effect on network dynamics in the cases researched. In most of the cases the effect has been positive.

5.2 Brokers

Networks do not necessarily involve brokers after the formation stage. In 66.6% of co-operative network cases, no broker exists in the network. In some cases, a facilitator was useful for the initial steps of network formation, but the network did not keep working with the brokers. One might think that the non-existence of brokers pointed to a learning curve that had been accomplished: having had a broker at the outset they no longer need one as they had learnt how to be a network on their own. What seems to undermine this assumption is the fact that the members do not seem to have a good understanding of the dynamics of a network. Their exposure to the broker has not established this basis.

So, what do brokers do?

Most of the time, brokers devise and formulate a strategic plan that network members do not understand. The plan is likely to be only a formality to obtain registration and, in some cases, funding (from regional development agencies, for instance, or a local authority), but it does not represent a real feeling, commitment and understanding by these members. As the CEO of a company member of a co-operative network said about the strategic plan developed by the broker ‘ . . . it is an unrealistic plan . . . ‘

When the broker’s role ends it often leaves the network acting alone without a clear or strong sense of direction. Members frequently do not feel good about the role the broker has played after it ceases. As the CEO of one company said: ‘we were not satisfied with the broker, we changed him twice. We already had a strategic plan before he came, but in order to get funding, we needed a facilitator

officially recognised. Now if we need something, we contact a consultant that has already done work for one of the members, but not the facilitator any more.'

Brokers play different roles within a network. Some are obvious, such as the role of 'expert', the person who knows how to prepare a strategic plan. Others are more subtle. One of the most important of these subtle roles is that of psychologist. Because they deal with people, as one chairman said, 'the network is people driven, you are dealing with people', then the broker needs to be someone sensitive to inter-personal relations and their management. We were advised of an example of a network that collapsed, where one of the contributory factors was an inter-personal conflict between the chair of the network and the broker.

Sometimes the expertise role may be overwhelming: one problem arises when the network is broker-driven. If that is the case, that is not a network as such, because it exists as a result of the broker's initiative rather than the initiative and perceived need of the members. In these circumstances there is an elements of broker-opportunism. Of course, if the net benefits are positive then it matters little.

Members consider the most important contributions from the broker to the network to be motivation, contacts, and information.

5.3 Trust

All network co-operatives have codes of conduct for their members, but so far they have been used rarely. These codes of conduct typically relate to the confidentiality of the information that the members share with other members. However, the 'reality' of the co-operative occurs in and through its regular meetings, usually held on a monthly basis, where current issues are discussed. In the context of these meetings the codes are rarely activated to structure the conduct of the meeting per se. There were some instances where, once members had left the network, the principles contained in the code of conduct were used

retrospectively to gloss alleged opportunistic behaviour on their part towards the co-operative network. However, it did not seem that they were excluded in terms of the code of conduct. Examples included network members who had been selling their private produce while using the co-operative network to market it. In two instances where this occurred, the co-operative network emerged stronger from the crisis as a result, once the opportunistic members left the network. Often there was subtle pressure on the co-operative 'deviants'; sometimes these 'deviants' were sufficiently big in market terms that they decided that they did not need the network anyway. Their deviance helped to make the purpose of the network clearer to the members who remained; the network was not there for the private benefit of its members but their collective benefit, achieved co-operatively.

These codes are mainly concerned with confidentiality and trust in other members. Trust is a very important factor in network dynamics. According to Thorelli (1986), the concept of trust in the network context is based on a shared confidence that the network relationship will continue in the future. It is a long-term vision based on previous performance by network members. In the research, more than 85% of members trusted other network members. Even where a shared feeling of trust exists between members this does not extend to the belief that any member can initiate actions on behalf of the network. Trust does not extend to actions that could potentially be in the individual member interest.

Two thirds of members thought that other members had never behaved opportunistically. One network Chair commented in an interview 'Sitting around the table in the network, are the senior people from companies and generally they are men of principles and ethics and I'll be very disappointed, you know, if this sort of unwritten law or trust is betrayed.' This means that there is a high level of trust between members. That this is the case is a major reason for understanding why co-operation between members has increased since the formation of the co-operative network.

5.4 Planning

The broker developed a strategic plan for all the co-operative networks researched. However, co-operative network members often do not follow the network strategic plan. In this respect co-operatives differ from business networks generally, where two thirds of network members believe that they are following the strategic plan. It marks a clear difference between the ways in which strategic planning operates in the two types of networks. In the business networks, typically formed on a 'hard' basis, the strategic plan solidifies a joint venture with a specific set of goals that are usually export-oriented. One way of interpreting these results suggests that the members of co-operative networks have a low level of development of management skills, at least in terms of understanding what a strategic plan is, and how it might be used. The strategic plan is developed rapidly at the outset of the network formation, and is done very much *by* the broker *for* the network. However, the co-operative network members seem to have a poor grasp of what is happening when the strategic plan is developed: it is a process performed by an 'expert', the broker, but they seem not to share much in the process. It is hardly surprising, then, that this type of strategic planning has little salience for them.

5.5 Conducting meetings

As we have discussed previously, co-operative networks have monthly meetings, which include an agenda and minutes, at which different issues are discussed. The most important concern the future of the network, whether to accept new members, as well as general issues dealing with membership and marketing. More members mean more ideas, more synergy, more opportunities for learning. The research demonstrated that members think that their access to knowledge is positively related to the amount of contact that they have with other members.

Decision-making occurs through consensus arrived at in the monthly meetings. These meetings take the form of 'round table' conducted theoretically by the Chairperson, although, in most cases the broker becomes the effective Chair. After the first meeting, where the broker steps down as Chair, the offer is usually

made that the broker can continue to facilitate the network, for a fee, and aid them in their self-management, by keeping the minutes, faxing minutes and agendas out to members, and other minor administrative details. Usually the network accepts this suggestion, and pays the fee accordingly. (As we have noted earlier, given that the networks have an average size of 12 members, then the average cost per member may be, perhaps, $500 each. For some members this may be a substantial amount; for others it matters hardly at all.) The reason why the co-operative networks accept this role for the broker is simple: the brokers have greater experience and skill in the conduct of meetings, and the other members tend to defer to them in their conduct of the meeting.

While members may find it easier to let the broker take over these functions they do so to the detriment of the co-operative network. It minimizes their opportunities for organization learning and means that, effectively, the co-operative network ends up being 'broker-driven'. In some situations that we researched, if it were not for the brokers the co-operative network would cease to function: this is because the Chair of the network seems incapable of organizing it efficiently. However, in these circumstances, it is questionable as to what extent the network really is 'co-operative' when it depends so much on the broker for its continued existence. Such dependency thus works in the interests of the broker rather than the network.

Overall, with respect to the meetings, the majority of members who were absent from the meetings still believe that their point of view is considered in discussions. Additionally, they feel that their own decision making has not been constrained as a result of being a network-member.

5.6 Collaboration

Should collaboration occur between competitors? This is a debate that is particularly lively in both academic circles (Best 1990, Ring and Van de Ven 1992, Sabel 1993, Gray 1989, Hamel and Prahalad 1994, Bleeke and Ernst 1993, Lorange and Roos 1991) and amongst practitioners. In general one can say that

competitors are those organizations in the same industry that make or offer similar products or services. Some of the networks contacted as part of the research found it difficult to collaborate with competitors. (55.6% of members do not think that the network should admit competitors as members.) Often, they make it clear in their regulations that competitors are not going to be accepted, as one member said 'No, because it would limit open and frank discussion'. On the other hand, there are some members who do accept that networks should admit competitors. As one Chair said when questioned about admitting competitors into the network 'Yes, it is essential to change people minds.' The general perception from the research findings is that collaboration has increased between network members during the life of the network.

5.7 Conflict

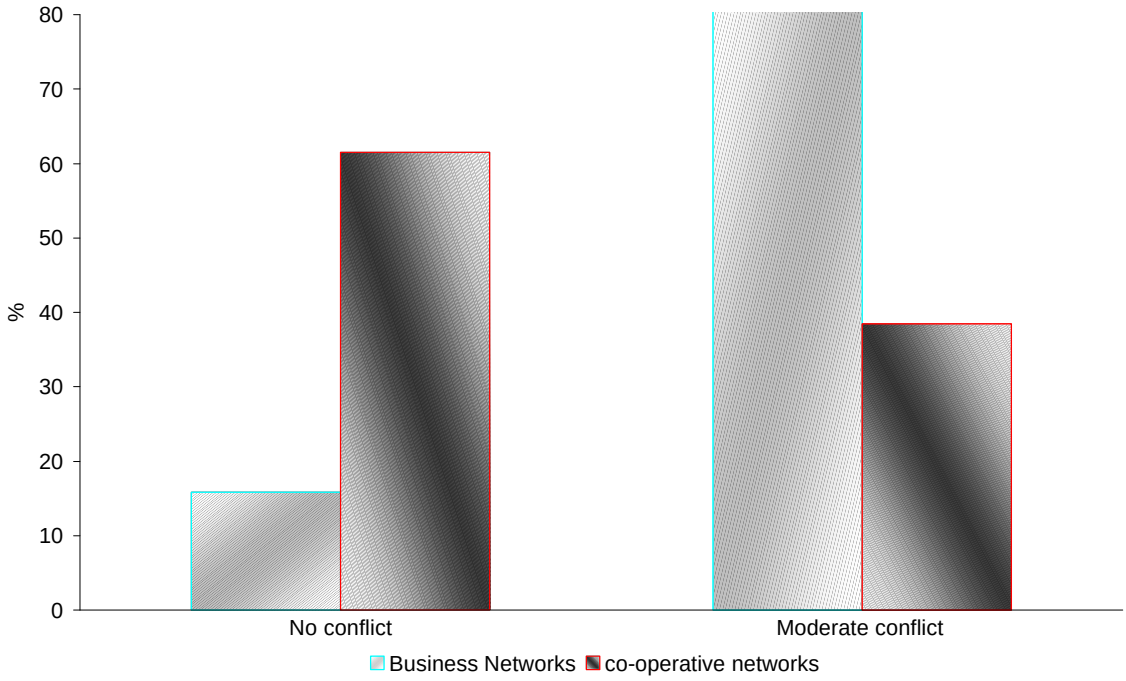
Members of the co-operative networks do not consider that these networks are characterized by much conflict, when asked a general question about the extent to which there is conflict in the network. (61.1% of members do not accept the existence of conflict.)

The perception that levels of conflict are low differs markedly from the business networks where members accept that conflict exists in the networks. (84.2% of members accept the existence of moderate levels of conflict.) Bearing in mind that the management literature generally accepts that a moderate degree of conflict is healthy, as a way of surfacing tensions and new ideas, the relative absence of conflict is not necessarily a good thing. However, when data is analyzed in response to open questions about the typical issues for discussion within the network, one can perceive that there is a certain level of conflict between network members. In general, conflict is linked to the acceptance of new members in the network. In particular, this relates to the acceptance of competitors as network members.

Conflict resolution takes different forms. Some networks resolve problems through discussion at the monthly meetings. On other occasions, some members

left the network. In these latter cases, the members that stayed in the network considered that the members who were quitting had acted largely for their personal benefit, using the network name and resources for that purpose. As one network Chair said after a member had quit the network, 'Conflict became obvious afterwards and members decided not to accept new members.'

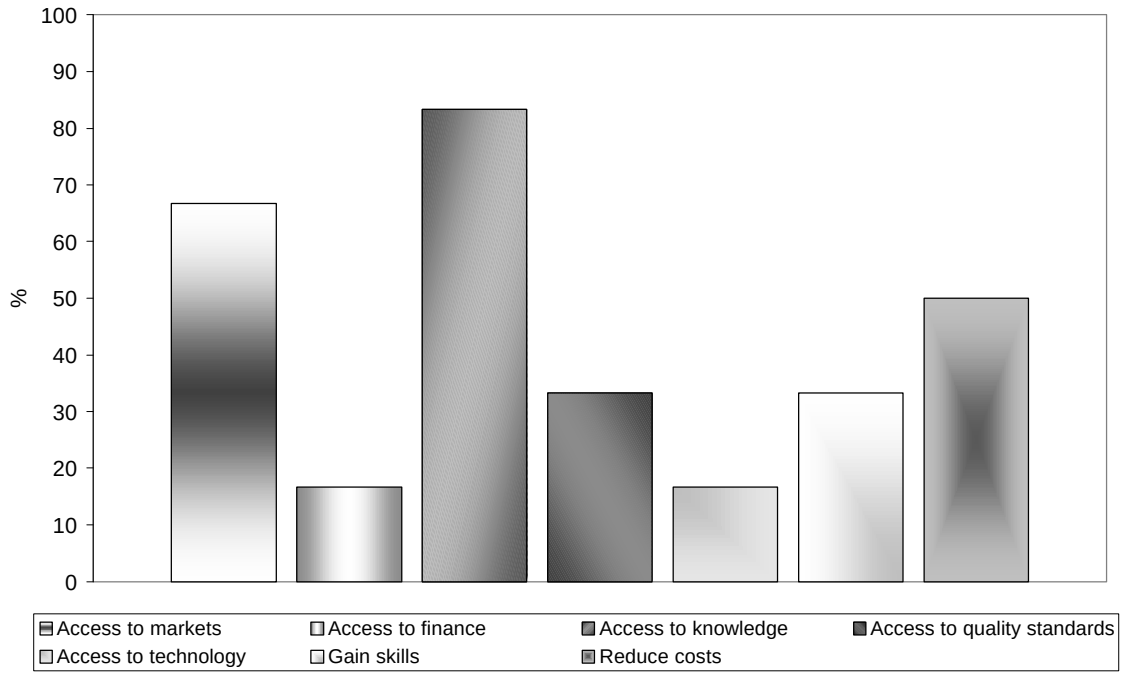
Figure 3: Level of conflict



5.8 Expectations

Members have different expectations about becoming part of a network. The most important expectations are that they want access to knowledge, access to different markets, to be able to obtain information, and to reduce costs. It is important to mention that, so far, most networks have not met their members' expectations when they decided to join it. One member of a network that seemed to be performing particularly well, when asked why he had joined the network, said 'I have no idea.' In some ways being in a network has made it easier for members to access knowledge and technology but their understanding of co-operation and networking is still poor.

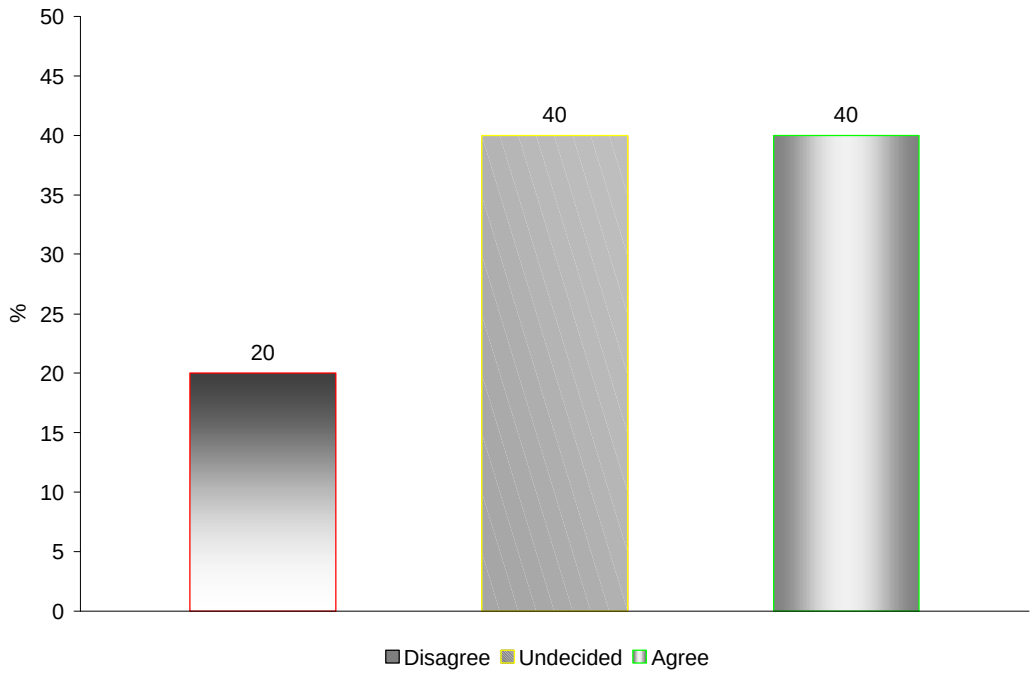
Figure 4: Members expectations



5.9 Members satisfaction

Only one third of members are satisfied with the network they are in. When we asked members of co-operative networks whether they considered their network to be effective only 40% of them agreed with this statement. Perhaps more significantly still, 40% of the co-operative network members were 'undecided' as to the effectiveness of the co-operative network. In the case of Business Networks, the data indicates the opposite: here, 90% of members consider their network to be effective. Co-operative network members believe that important elements for increasing network effectiveness include increasing membership, building healthy finances, and gaining access to markets.

Figure 5: Co-operative network effective

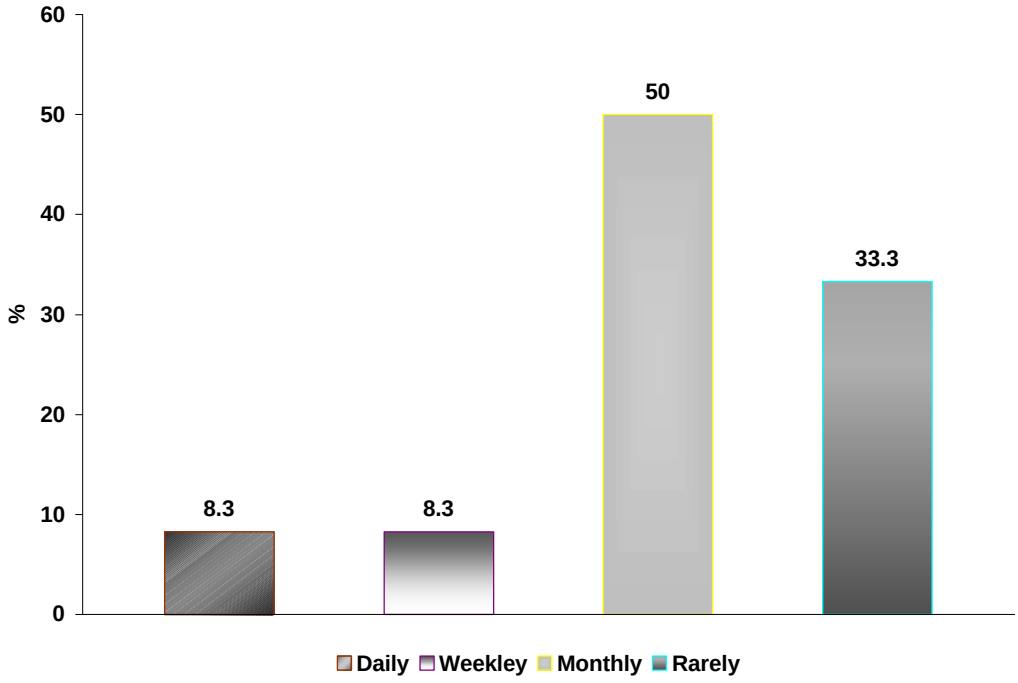


5.10 Communication

Only 36.4% of co-operative network members contact other network members when they have business problems, compared to 85% of the members of business networks. Contact between members is basically restricted to monthly meetings; occasionally they have telephone or fax communication. Again, this is very different from the business networks: they are more likely to contact each other weekly rather than monthly.

While 65% of business network members are in contact with each other by e-mail the percentage of co-operative networks using e-mail is zero: hence, we are dealing with a group of people who are less likely to communicate through any channels, and who have no electronically sophisticated (and instantaneous) communication at all. That this is the case is not simply an effect of rural isolation: many of the co-operators researched have an urban and metropolitan location.

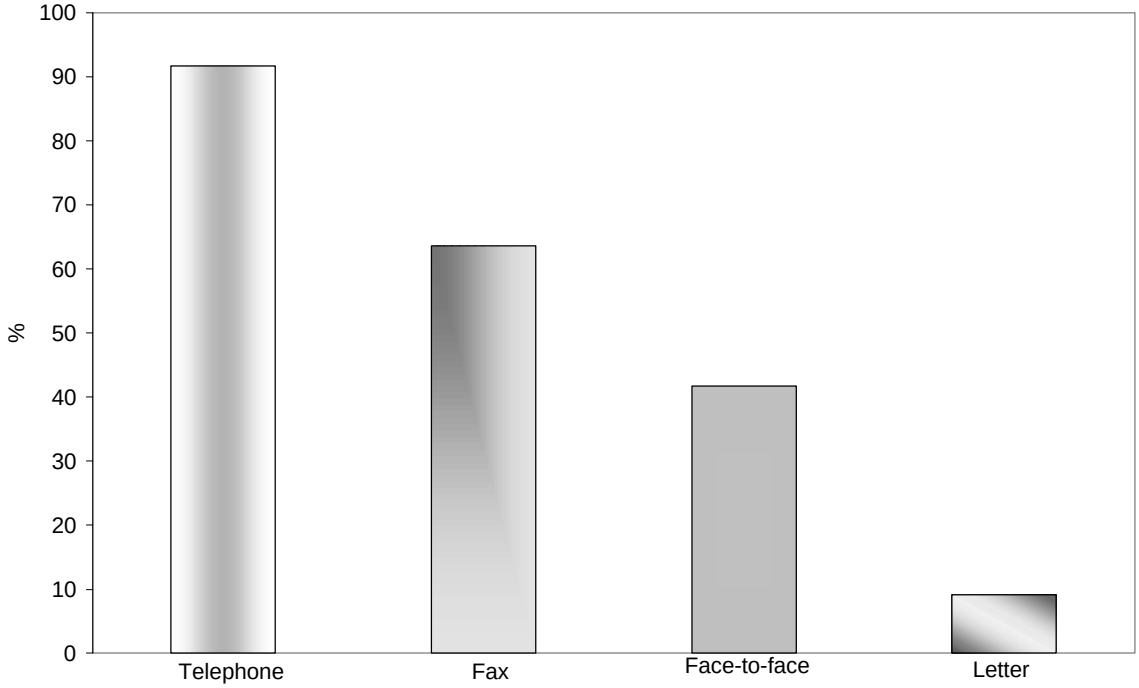
Figure 6: Contact between members



Co-operative networks do not take advantage of the use of Information Technology. For example, not only do they not use e-mail; they are not likely to access the Internet either. In the case of Business Networks the majority of networks have access to the Internet, and in some cases, members have their own home page.

Members in general have little difficulty in raising issues in meetings or between members in co-operative networks, with 83.3% of members finding it easy to do so. In principle, more than two thirds of members believe that they can share their organizational problems within the network. Open discussions during the monthly meetings are the most important means that members use for sharing information with other network members. But members do not share all kinds of information; there are still some areas where members will tend not to want to divulge. These areas are related to the individual company that they represent and its private financial situation.

Figure 7: Ways of communication



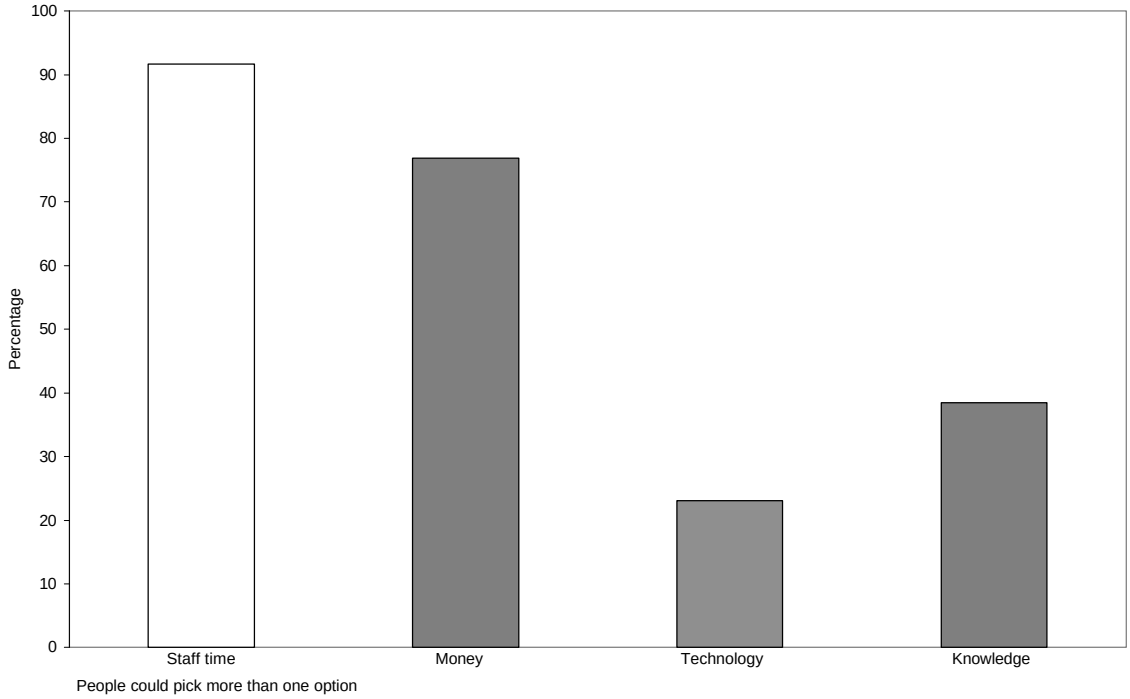
5.11 Commitment

The strategic planning process in the co-operative networks involves the members in various commitments of resources. The most important elements that members feel that they need to commit are time (91.7%), money (76.9%), with a lot less finding knowledge important (38.5%). In contrast with the business networks, while the contribution of knowledge ranks relatively lowly in the co-operative networks, it scores 84.2% in the business networks.

A contradiction is buried in the data on resource-commitment. The co-operative networks are 'soft': as such, the aims of sharing information and knowledge rank high in the formal goals of such networks, as a fundamental aspect of their *raison d'être.* Even though, according to Watts' (1995: 2) definition, they exist to share information and knowledge, despite this, relatively little knowledge actually seems to be shared. And when it is, it is largely through mediated, rather than immediately co-operative, mechanisms.

In initially forming the network the members also have to make a number of commitments: in order these are staff-time; money; knowledge, and technology.

Figure 8: Members commitment



There is a perception that members make an equal contribution to the network (72.7%). While they all say that they make an equal contribution, in fact the chair makes a far greater contribution to the network. They have to be at every meeting. Because co-operative networks tend to be large, not all members attend all meetings; typically, there is a hard-core of members who are regular attendees. In reality, time is the most important commitment and it is one in which there is an evident difference between members. Almost all members recognize that time is their major commitment. Our empirical observation, based on the fieldwork, is that the commitment of time is highly variable across the network in co-operative networks.

5.12 Perceived Benefits

In general, members are interested in participating in another network, but under different conditions (72.7%). Members were able to tell us that participation in

the network has helped them as members to reduce costs in areas such as marketing and promotion, through joint activities.

In a third of the co-operative network members the principal product that they produce is oriented towards export-marketing (38.5%). Compared to the business networks this is a considerable difference: here more than two thirds of the main product (80%) are for export. There is no evidence that being in a co-operative network had an effect on export proclivity. In respect to the development of joint projects for its members, 75% of business networks have created joint projects for their members, while in co-operative networks this was the case in only 50% of the cases. It is important to mention that new projects do not necessarily involve all the members of the network: this can be a source of conflict. Depending on the product or service, the project might include only some of the members. This process may have an effect on network dynamics. More research should be done in this respect.

Different areas of member organizations gain benefits through participation in a network. Such benefits include:

- market innovation in two thirds of cases (61.7%)
- product diversification in 58.3% of cases
- product innovation in 75% of cases
- product quality in 66.7% of cases

When network co-operatives were asked about the turnover of organizations member only 41.7% of the cases reported that any turnover had occurred. Typically, in terms of the effects on co-operative network membership, the qualitative responses of the members of the co-operative network suggested that it was difficult to attribute any effects, positive or negative, to this turnover. There was a slight impact on access to raw material and the ability to obtain better raw material prices.

While one of the reasons that networks are promoted is to reduce risk, the perception of their members is that they have had little impact on risk-reduction. Similarly, in theory a co-operative network should be an effective mechanism for facilitating organization learning, through contact and exposure to the practices of other, similar, firms. However, this research suggests that co-operative network members consider that the network has not helped them significantly to access new skills or practices of an organization learning kind. Even though members do get practical and quite mundane knowledge through discussions that occur in monthly meetings and visits to other members' facilities, these hardly amount to organization learning in an exploratory sense (Weick and Westley 1996). Instead, they are more likely to be exploiting aspects of imperfectly shared knowledge about how to do the business that they already do, often oriented towards administrative aspects of non-core business operations, such as tax-compliance or some other legislative compliance.

In 82% of cases members share the information obtained from the network with their employees, but mainly on an informal basis. There are no indications that they learn how to co-operate in ways that flow through to developing more co-operative patterns of management and participation in the individual work places and organizations. It is a co-operation of relatively small-time business elites or of sole proprietors, rather than of organizations. It is not co-operation in ways that the progenitors of the movement would recognize or that the 1992 Act frames. In part this is because the co-operative network links together disparate sites and places: people simply do not work together physically in the same organization nor do they have a sense of being together in the same organization. They remain stand-alone businesses that are not deeply embedded in their relationship with each other through real partnerships. They might evolve to this — but none have, as of the present, nor do they seem to have the mechanisms in place to enable such evolution.

As noted previously, there are different government bodies involved in the promotion and creation of networks. Brokers play an important role because they are the daily contact with the co-operative network organizations. In turn, the brokers are supported or funded by bodies such as AusIndustry, Department of Agriculture, Department of Communication & Arts, Department of Fair Trading, Cultural Institute Development Program, Hunter Valley Regional Development Unit, Liverpool Council. In this respect, first there are government departments; second, there are those brokers who, through their consultancies, have contact with these departments, and then, third, there are the organizations that become network co-operatives. These networks are less likely to evolve out of a socially embedded movement of their members and more likely to be the result of policy development. That this is the case poses some considerable policy opportunities: how to develop policies that try and grow more organically connected and innovative networks? We will return to this issue below.

It is evident that members of the co-operative networks have some ambitions for their firms as a result of being in the networks. Bigger markets, new products, and innovative knowledge are all expected to be some of the gains that they look for in the future of the network. Co-operative network members see new opportunities largely in terms of new markets. Some of the reasons that co-operative network members are optimistic for the future relate to their ambitions to enter new markets in the international arena, although they are not in the majority. The anticipation of gaining enhanced entry to export markets is a basic aspiration for the majority of the business networks studied in the project, but not the co-operative networks.

5.13 Other considerations

Typically, in the co-operative networks, there is no single focal firm. Members perceive that no one member is critical for the survival of the network, but they still recognise the value of a good Chair, one who can conduct the network meetings so that both the network and themselves, as business entities, can

achieve their goals. As one of the brokers said, ‘Networks need a ‘champion’ within the network, it should be better if you can have two, but one will do.’

6. Crucial Network Success Factors

The role of a network chair is very important in the dynamics of the network. The leadership that the chair provides can be a significant cause of network success or failure. As mentioned earlier, the role of the broker is important in the early life of the network, because the members usually lack the skills to go on without the help of the broker. Some benefits relate to group membership, such as access to resources, the establishment of joint ventures, and the development of new products.

The idea of expanded markets through export seems to be the most important element in the members’ view of what constitutes network success. To achieve this, it is important that the co-operative gains major commitment from its network members. The network must remain attractive for its members as a source of creativity and synergy otherwise, members will leave the network. It is easier for members to leave a co-operative network than a business network that does not have a co-operative form. In the latter case, dis-establishment costs are entailed that do not apply in the case of the co-operative.

Networks are seen to produce better performance in the long run; as one of the members said ‘To be efficient networks need an identity; they are formed for long term purposes, one can not expect results in the short term.’

7. Network Failure Factors

Some of the networks studied are ‘broker driven’. They depend on a facilitator. Where networks involve a broker the probability is that the idea of co-operation is not well understood by members. A facilitator needs to be used, but only for the initial steps of the network, where the aims of the network, its strategic plan,

need to be used in order to build a sense of co-operative membership. It is important that this plan be realistic and attractive to the members if this commitment is to be built. Additionally, the strategic plan should be produced in such a way that they feel some ownership in the final result. It would not be the case that this was so with many of the strategic planning sessions that we observed, discussed, and participated in with members.

One CEO commented, as we have remarked, when asked about the reasons for joining a network: 'I have no idea'. In this case the strategic planning exercise was singularly unsuccessful in building initial commitment and understanding of the reasons why the network exists. Having said that, the member in question belongs to what is now a very well developed and successful network.

It is a matter of fine judgement. Brokers have to know when to let the network go by itself: they should not always be attached to the network, otherwise it will never break free from the initial dependency stage of development. But the network has to be prepared and ready for being set free. Maybe a more formal approach to managing the transition might be a useful piece of organization learning that could be disseminated around the networks?

Factors that may lead to the collapse of the network include lack of resources; lack of membership; lack of interest, and lack of confidence. Every co-operative network needs a critical mass to survive, to make it attractive for its members. An underlying element always present in any network is the financial factor. If the network does not have enough resources it will always be very close to collapse.

Lack of benefit for members is a factor that is always present in network dynamics. If members perceive that they are not receiving enough for what they are putting into the network, they will feel disappointed and will tend to leave. This will be the case especially where their initial enthusiasm for the network was low, perhaps because enthusiasm for their recruitment was externally driven.

8. Implications and Recommendations

- The Department of Fair Trading needs to work with co-operative network brokers. It is important to diffuse the principles and values of co-operatives before they are formed. The Department of Fair Trading should provide a formal package of information for the members of a network co-operative that they can access early in their formation process. Through this the prospective members can learn the benefits, formalities, and obligations of co-operative membership. At present, they are not cognisant of these.

- Diffuse the values and principles of co-operatives through workshops, round-tables, focus groups and other devices that seek to circulate learning rapidly through the sector. At present the learning occurs principally from the broker or from each other: more efficient means of circulating wider learning faster could be developed.

- A critical phase for co-operative networks is when they move from broker-initiation to network self-management. A structured program of learning material might aid them in fitting this transition more effectively and repay the initial investment in the broker better. Brokers could be involved in the delivery of this material.

- Funding for programs could be delivered through local education institutions such as TAFE or Universities that enabled, for instance, business students to develop research projects that could help co-operatives, in areas such as their management, marketing or computing and IT skills. A great deal could be done, relatively cheaply, at a relatively low-level of sophistication, that would enhance the competencies of co-operative networks. The whole world of the web and its discussions about co-operatives is, by and large, unavailable to network co-operative members. Such measures would help to promote the use of Information Technology to members and thus improve network communication. The use of electronic mail (e-mail) and Internet is an important way to have faster, cheaper and up-to-date information.

- Co-operative networks are an accepted mode of collaboration between organizations and individuals. The Department of Fair Trading should promote relationships between network co-operatives to enhance 'cooperation between co-operatives'. Networks at present seem not to connect much with each other.

9. Final Comments:

Networks have had a great impact on public policy, however our research found different opinions and understandings about networks present in their members. As one member commented about the idea of the co-operative network, it 'has a good potential, but it does not always work efficiently.' Another member talking, about his experience in a network, thinks that 'the network, specially for us, has opened a new dimension to what is available . . . I didn't look at different areas before.' He also recognised that the organization members 'have been successful in a number of areas but this only comes about through networking.'

When one compares the comparative data for business networks with co-operative networks it is clear that the former are more successful. If co-operative networks are to achieve more than they have at present then this innovation in co-operative form needs to become a more explicit object of co-operative public policy. However, this entails that the traditional conception of what is a co-operative will need stretching considerably beyond the 'Seven Principles' that the ICA articulated in 1995. Otherwise, we have to accept that co-operative networks are not co-operatives. However, they are an available business form; businesses in NSW have adopted this form, and the form could be far more effective than it is at present.

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Appendix 1: Principles of Co-operatives

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes:

- developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible
- benefiting members in proportion to their transactions with the co-operative
- supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms

that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.