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Cooperatives as a Community Development Strategy: Linking Theory and Practice

Kimberly Zeuli and Jamie Radel
University of Wisconsin – Madison USA

Abstract. The evolution of community development theory has not yet generated a parallel advancement in implementation strategies. In this paper we introduce a strategy—cooperative development—that compliments contemporary community development paradigms (self-help, asset-based, and self-development theories); thus providing communities and practitioners with an effective (and perhaps unfamiliar) vehicle for development. Although cooperative leaders, cooperative developers, and cooperative scholars consider cooperatives an important vehicle for community development, most have stopped short of prescribing how cooperatives can be incorporated into community development paradigms. Our objective is to motivate community development scholars and practitioners to start thinking about cooperatives in new ways, as part of their theory and strategies.

1. Introduction

The evolution of community development theory has not yet generated a parallel advance in implementation strategies. The traditional paradigm, with its focus on helping communities regain their past glory, was associated with business attraction, retention, and expansion strategies (Shaffer, Deller, and Marcouiller 2004). Practical approaches to implementing contemporary paradigms are less clear. Part of the issue is that self-help, asset-based, and self-development theories focus as much on process (building community efficacy) as on outcomes. In addition, the outcomes are no longer concrete effects such as jobs and income, but rather nebulous concepts like innovation and entrepreneurial activities. The more important dynamic, however, is the underlying tenet of contemporary theory that communities need to find their own strategies; identifying generic, one-size fits all strategies seems antithetical to the individualistic, self-help models. In this essay we expound a strategy—cooperative development—that compliments contemporary community development paradigms and thus, provide communities and practitioners with an effective (and perhaps unfamiliar) vehicle for development.

Cooperatives are viewed as important vehicles for community development because they mobilize local resources into a critical mass and their structure allows them to be more community-oriented (Fairbairn et al. 1991; Wilkinson and Quarter 1996).[1] Cooperative businesses can be found in nearly all countries, existing in numerous and varied sectors of the economy. In the U.S. they are most prevalent in agriculture and consumer sectors (especially natural food stores and purchasing), finance (credit unions), health care, housing, and utilities, although successful cooperative businesses can be found in virtually every industry. About 48,000 cooperatives serve 120 million members, or roughly 4 out of 10 Americans (NCBA 2005).[2]

This paper fills an important gap in both theory and practice. Although cooperative leaders, cooperative developers, and cooperative scholars consider

[1] Although the word "cooperative" can be applied to many different types of group activities, the term is used here to describe a locally owned and controlled business model. In the U.S., and many other countries, cooperatives are legally defined as a special type of corporation. As such, they are subject to state and federal cooperative statutes.

[2] It should be noted that the membership statistic represents the total number of memberships and not actual persons. Many people hold memberships in more than one cooperative.

cooperatives an important vehicle for community development, most have stopped short of prescribing how cooperatives can be incorporated into community development paradigms.[3] Their perspective, that cooperatives are businesses first and foremost, seems to be informed (and limited) by the general historic realities of cooperative development in the U.S. The social and economic contributions of cooperatives to their communities are certainly acknowledged, but largely as unintentional outcomes, or "community externalities," emerging from the process of organizing and operating a cooperative (Egerstrom 2001; Nadeau and Wilson 2001). The credulity of believing that communities will look to cooperatives to achieve local development objectives other than jobs and income is reflected by Fairbairn (2004): "After all, how many citizens…sit down and say, 'What our town needs is more democracy: let's form a co-op!'" (p. 19).

Community development scholars and practitioners, on the other hand, are now advocating that communities do just that. Although for the most part they never mention cooperatives per se, they promote locally owned and controlled businesses. The fact that cooperatives, or any actual legal business structures, are largely ignored in both community development theory and practice may reflect either a lack of detailed knowledge about business structures or an erroneous assumption that their differences (beyond local ownership and control) are trivial in a community development context. When cooperatives are mentioned, their potential use is narrowly defined (e.g., worker-ownership in Blakely 1994).

By providing relevant information about the distinguishing traits of the cooperative model and examples that reflect a more comprehensive function for cooperatives in community development, we address a serious omission in the community development literature. The need for this type of information is timelier than ever. In the past decade, new cooperative models have evolved. As we will discuss, some of these models hold new promise for community development initiatives, while others pose unique challenges. Comprehensive guides for cooperative development already exist; our objective is to motivate community development scholars and practitioners to start thinking about cooperatives in new ways, as part of their theory and strategies. Our discussion, therefore, is oriented towards praxis— the practical application of community development theory.

[3] Wilkinson and Quarter (1996) offer a theoretical framework that describes a community economic development process informed by cooperative development, whereas we show how cooperatives can be used as a strategy to implement existing community development theories.

The following section provides more details about the cooperative model, including a comparison of traditional and new structures, and a very brief overview of the cooperative development process. In section three we examine the potential for cooperatives as a strategy under three contemporary community development paradigms: self-help community development, asset-based community development, and self-development. We then discuss the challenges associated with using cooperatives as a tool for community development in the context of human, social, and financial capital considerations. Our conclusion provides a brief summary of the article's main points and policy recommendations.

2. The Cooperative Business Model

A standard definition of cooperatives in the U.S., a user-owned, user-controlled business that distributes benefits based on use, combines the model's three fundamental principles: user-ownership, user-control, and the distribution of net income based on patronage rather than investment (Zeuli and Cropp 2004). A co-op's user is a person that supplies its raw product (e.g., grain for processing) or purchases its goods and services. The "user-owner" principle implies that the people who use the co-op help finance the co-op in return for ownership shares. Cooperative patrons (or users) become members by investing equity (either up-front or over time) in the cooperative. Members generally contribute thirty to fifty percent of the capital required to finance the enterprise.[4] The collective investment of equity creates joint ownership of the business. Cooperatives may receive grants and loans (debt capital) from lending institutions (there are banks that specialize in providing cooperative credit) but there are limitations on receiving equity capital from individuals or organizations that will not patronize the cooperative. Cooperatives may obtain equity from non-members, but the investors may not be granted any voting rights and their returns from the investment are limited by state cooperative statutes (in most states dividends may not exceed eight percent annually).

The "user-control" concept means that cooperative members govern their organization. They approve and amend the co-op's governing principles—the articles of incorporation and bylaws. They also elect a board of directors and are required to approve all mergers and

[4] Lending institutions actually dictate the proportion of equity members need to provide in order to secure a loan. The equity capital contribution of individual members should be in equal proportion to their patronage of the co-op.

any bankruptcy decisions. State statutes governing cooperatives and cooperative bylaws usually dictate that only active co-op members (those who use the co-op) are eligible to become voting directors, although non-members sometime serve on boards in a non-voting, advisory capacity. Advisory directors are becoming more common in large agricultural cooperatives in the U.S., where complex financial and business operations may require the expertise of financial and industry experts.

Voting rights are generally tied to membership status, usually one-member, one-vote, and not to the level of investment in or patronage of the cooperative. Cooperative law in a number of states in the U.S. and in other countries, however, also permits voting rights based on the volume of business the member transacted the previous year with the cooperative. Generally, however, there is also a maximum number of votes any member may cast to prevent control by a minority of members. Equitable voting, or democratic control, is a quintessential attribute of cooperatives. In most cooperatives, the board of directors hires a (non-member) manager to oversee business operations (worker-owned cooperatives and collectives are exceptions). The manager, the only employee that answers directly to the board, is responsible for carrying out the mission and vision of the cooperative as established by the board of directors.

"Distribution of benefits on the basis of use" refers to the allocation of a cooperative's annual net profits, all or part of which are returned to members in proportion to their patronage (thus, they are aptly called patronage refunds). Cooperatives can also return a portion of their profits as dividends on investment. In the U.S., however, federal and most state statutes set an eight-percent maximum on annual dividend payments. The purpose of these limits is to assure that the benefits of a cooperative accrue to those who use it most rather than those who may have the most invested.

Unlike other business structures, cooperatives are guided by a set of business principles and values.[5] The International Cooperative Alliance, the organization that represents cooperatives worldwide, has adopted three sets of principles (in 1937, 1966, and most recently, in 1995). The seven principals for cooperatives include the following: (1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) autonomy and independence; (5) education, training, and information; (6) co-operation among cooperatives; and (7) concern for community. The seventh principal, which proposes that "cooperatives work for the sustainable development of their communities through policies approved by their members," was added in 1995 (ICA) in recognition of the link between cooperatives and community development (Wilkinson and Quarter 1996).

The cooperative business model, formally developed in 1844 in Rochdale, England, has never remained static. New laws and applications have created two distinct offshoots from the traditional structure outlined above (Table 1). New generation cooperatives (NGCs), which generated a lot of interest in the 1990s, have three characteristics that distinguish them from the traditional model (Zeuli and Cropp 2004). First, they limit the number of members they allow based on the size of their business. Traditional cooperatives have always had open membership policies, allowing anyone who patronizes the cooperative to join. Second, they tie membership shares to delivery rights. Members purchase shares that give them not only the right, but the obligation to sell a certain quantity of product to the cooperative. In traditional cooperatives, members have the opportunity to sell to the cooperative but are usually under no legal obligation to do so unless they enter into some type of supply contract. Third, the membership shares can be sold by members to other patrons, meaning member equity may increase or decrease in value over time. In contrast, membership equity in traditional cooperatives does not change in value. When members wish to leave, they simply sell their shares back to the cooperative at par value (the price they originally paid).

Patron-investment cooperatives (PICs) are a more radical departure from the traditional model.[6] This type of cooperative allows non-patron investors (individuals who do not use the cooperative but invest equity capital) to become members and bestows on them all the rights of patron members (including voting). The relatively new Canadian multiple stakeholder model (also called a solidarity cooperative) allows three categories of members: users, workers, and "sustainers," the latter including any person or organization that has invested in the cooperative (Girard and De Bortoli 2004). For example, community non-profits

[5] In reality, cooperatives vary greatly in their adoption and interpretation of these principals. The degree to which they subscribe to them is sometimes used to classify forms of cooperatives (Barton 1989). In spite of this, the principles still play a role in the organization and operation of cooperatives.

[6] In 2001, Wyoming was the first state to adopt a cooperative statute that legalized this form; thus, it is often called the Wyoming model. To date, only Minnesota, Iowa, and Tennessee have passed similar laws. For a more comprehensive overview of this model see Zeuli and Cropp (2004).

Table 1: Comparison of Alternative Cooperative Types

	Traditional Cooperative	New Generation Cooperative	Patron Investment Cooperative	Worker-Owned Cooperatives
Membership (Ownership)	Open membership and generally no contractual use requirement. Only patrons are members.	Closed membership and ownership is linked to product delivery contract. Only patrons are members.	Open or closed membership; non patrons may also become members.	Closed membership limited to the number of jobs in the cooperative; only workers are members.
Equity	Membership certificates or common (par value) stock for patrons; preferred (non-voting) stock for non-patrons.	Common stock, but membership shares have "market value"; members sell their stock to other patrons when leaving co-op.	Common stock with two different membership classes: patron and investor.	Membership certificates or common stock. Equity in cooperative is generally generated through sweat equity.
Investment & Risk	Generally low upfront investment; relatively low financial risk to members.	Generally high upfront investment; increased financial risk for members.	Low or high upfront investment; mixed financial risk.	Low or high upfront investment; mixed financial risk.

and government agencies in Canada often invest in these cooperatives, which are concentrated in personal and home service sectors (Wall, Duguay, and Rohan 2004). Because of their multiple membership classes, the PIC and multiple stakeholder models offer new opportunities for local governments and community residents to jointly meet community needs through a cooperative organization.

Worker-owned cooperatives are another prevalent form of cooperative in the United States. Under this form of co-op, the employees own the business.[7] Often, equity is paid to the co-op through "sweat equity," meaning that the member (owner) must work a certain number of hours to fulfill their equity investment requirement. Similarly, the co-op's benefits may also be distributed based on individual labor contributions rather than patronage. Worker-owned cooperatives are often confused with Employee Stock Ownership Plans (ESOPs), which are corporations that give employees an ownership stake in the company. Most ESOPs are not completely employee-owned and they are usually not democratically governed.

Democratic governance and user-ownership makes the cooperative development process more complex than is the case with other business models.[8] The degree of difficulty depends on who initiates the process, the diversity of the stakeholders, and the complexity of their objectives. The cooperative development process can be initiated by a group of people in a community who are interested in creating a cooperative to meet a collective need or opportunity (a bottom-up approach). Alternatively, the process can be initiated by an external party, such as a community development agent, who is interested in developing a cooperative to meet a specified or general community need or opportunity (a top-down approach). Or, in contrast to either of these two approaches, the entire cooperative development process can take place outside of the community, in what we call a peripheral approach. In this case, the community is chosen as a location for the co-op based on strategic business reasons (e.g., market access or transportation infrastruc-

[7] The term "worker-owned cooperative" is often erroneously used interchangeably with the term "collective." The latter refers to a non-hierarchical management style not an ownership or legal business model. Not all worker-owned cooperatives are collectives.

[8] See Zeuli and Cropp 2004 for a more detailed description of the cooperative development process.

ture) at the end of the cooperative development process.

The initiators and goals of the cooperative development process, as well as the cooperative structure, have important implications for community development, as will be discussed in greater detail in the following section. There are certainly other factors that distinguish the cooperative model from other legal businesses structures (e.g., unique tax treatment) and determine whether the cooperative model is the appropriate choice for any community development initiative. We do not provide a comprehensive comparison since it is beyond the scope of this article and can be found elsewhere in the literature (e.g., Zeuli and Cropp 2004). Cooperatives also have unique challenges, which will be covered in section four.

3. The Potential Contribution of Cooperatives to Community Development

In this section we more explicitly examine the ways cooperatives can be used as a strategy under three contemporary community development paradigms: self-help, asset-based, and self-development. Since these approaches overlap in many areas, the discussion of each paradigm and the potential role for cooperatives will be additive rather than comprehensive. Therefore, some of the cooperative examples we use to illuminate one strategy could also be included in the other strategies, but we avoid doing so for the sake of clarity. Instead, we choose to highlight different cooperative cases for each strategy to maximize the reader's exposure to the various roles cooperatives play in communities. Given the objectives of this article, we focus on successful cooperative cases from the U.S. and Canada.

Self-help community development

The self-help model places community members at the core of a development process with two goals: to improve the quality of life within the community and to increase the community's internal capacity to create further change by institutionalizing the community development process (Christenson 1989; Flora, Flora, and Fey 2004; Green and Haines 2002; Littrall and Hobbs 1989). It advocates creating enterprises that have a broad-base of community support and serve the interest of many in the community (in contrast to projects that serve the interest of a small sector of the community).

Some cooperatives are established by a group of people in a community primarily to meet their own needs (e.g., affordable housing or health care services), but the cooperatives also benefit the community in general (Walzer and Merrett 2002; Zeuli et al. 2005). Other cooperatives are developed by individuals within a community (e.g., community development agents and civic leaders) to realize a larger community development objective; these cooperatives have a dual bottom-line, financial and social (Fairbairn et al. 1991). They are sometimes called community cooperatives (Zeuli et al. 2005) or community business corporations (MacLeod 1997).

Perhaps the most well known example of such a cooperative is Mondragon in the Basque region of Spain. The Mondragon "experiment" in community economic reform has grown into a complex of cooperatives that comprise over 100 individual businesses (MacLeod 1997). Other notable cases include the Evangeline region in Prince Edward Island, Cheticamp in Nova Scotia, Emilia Romagna in Italy, and the kibbutz of Israel.[9] The more recent innovation of "social cooperatives," first founded in northern Italy in the early 1980s, is also receiving a lot of attention, especially in Canada. They were initially developed to provide jobs for people with disabilities but now also deliver general social services (health care, social services, education, recreation, etc.) in many communities in northern Italy (Wall, Duguay, and Rohan 2004). Each of these cases represents an integrated system of co-ops working together to meet collectively the needs of the community (Wilkinson and Quarter 1996).

Independent community cooperatives, single cooperatives designed by individual communities to meet diverse social and economic community objectives, are less well known, but more ubiquitous. In Great Britain, Canada (the solidarity cooperatives), and Sweden, each cooperative often has multiple objectives (Lorendahl 1996; Storey 1982);[10] while in the U.S., the cooperative typically only offers a single primary service (Zeuli et al. 2005). Housing cooperatives, for example, have been developed in urban and rural areas across the U.S. to provide affordable housing for low-income populations, including the elderly. In housing cooperatives, which can be single family homes, apartment buildings, mobile homes or virtually any other structure, the cooperative owns the buildings and land (Zigas 2000). Members own a share in the cooperative (the business), which gives them the

[9] The Antigonish Movement in Canada, which promoted the formation of cooperatives as a means for community residents to create their own local development, is a well-known historical example connecting cooperatives and community development (MacPherson 1979).

[10] A similar type of cooperative, called Emerging Cooperatives, were created in the U.S. during the 1960s by communities to serve the needs of the economically, politically, and educationally disadvantaged (Williams 1974).

right to occupy a particular unit in the cooperative. Cooperatives often restrict appreciation on units and strive to keep costs low for their members (Zigas 2000). In addition, since the cooperative, not the individual member, obtains financing, the members do not have to meet the credit requirements of the lender. The transfer of membership shares is also cheaper and more straightforward than real estate transactions.

The three cooperative development processes (bottom-up, top-down, and peripheral) described in the previous section have different impacts on community efficacy, the ability of community members to engage in collective action to pursue a common objective (Parisi et al. 2002). The first of these three processes (bottom-up) has the greatest potential for community residents to learn a development process that could be replicated for other enterprises because it requires the greatest degree of individual involvement. The impact of the second process depends on the extent of the involvement of the external agent. If the agent is primarily acting as a facilitator and guiding a group through the process, the impact would be similar to the group acting on their own. If the external agent is acting as the sole or primary cooperative organizer, the opportunity for the community to gain additional internal capacity decreases. The third process, which involves a cooperative development process outside of the community in which it is eventually located, generally falls outside of the self-help model. Instead, it reflects a more traditional community development strategy (business attraction or recruitment).

The choice of a cooperative model is an equally important consideration. The development of NGCs and PICs may have less "broad-based" support than traditional cooperatives because of their closed membership policies (NGCs) and the inclusion of investors who may not be located in the community (PICs). The non-local investors may be more concerned about the return on their investment than the welfare of a community in which they do not reside. If the investors are local residents, however, the PIC model may comprise a more diverse set of community supporters than either the NGC or traditional cooperatives, which are limited to patron members. Whether or not the cooperative continues to serve the community at large also depends on its internal structure. For example, proportional voting rights may allow a small, coalition of members to effectively control the cooperative. Their interests may not represent the entire cooperative membership (and by extension a broad base in the community).

Asset-based community development

Asset-based development starts from an assessment of a community's resources and thinking about how to mobilize those resources for the benefit of the community (Green and Haines 2002; Shaffer, Deller, and Marcouiller 2004). A community's assets include the human, social, physical, financial, and environmental, or taken together what Green and Haines (2002) call "community capital." By virtue of being locally developed, locally owned and locally controlled, cooperatives clearly build on a community's human capital, social capital, and financial capital.

The cooperative contribution to human capital development (education, skills, and experience) may be its most substantial community development impact. According to Richardson (2000), the value of leadership training cannot be overestimated: "If I were pressed to select only one from a list of the ten most important components needed for sustainable rural community development, it would have to be leadership training" (p. 87). Cooperatives build local human capital through member education and leadership opportunities on the board of directors. Educational opportunities are often extended to directors, employees, and members who do not serve on the board, and are provided in areas beyond the core business (Torgerson 1990); a duty to educate members is a traditional cooperative principle. For example, some cooperatives pay for members to attend leadership conferences or industry meetings or they organize their own workshops. Annual meetings are another educational opportunity and often cooperatives invite speakers who will discuss national policies and trends or leadership issues. Other types of businesses may provide similar opportunities for their employees but not for their entire customer base.

Individuals who serve on any corporate board develop skills in business management, communication, and group problem-solving that can be used in other organizations. In the case of cooperatives, these skills are being developed by community residents, many of whom may not have similar opportunities. Thus, cooperatives play an important role in developing local leadership. As Fairbairn et al. (1991) succinctly summarize: "Without ever forgetting that a cooperative is an economic enterprise that follows certain clear and highly evolved rules, a cooperative is also adult education of a most compelling kind" (p. 44). Richardson (2000) tells community development practitioners that they urgently need to persuade local citizens to prepare themselves for leadership roles. Cooperative members will have their own incentives to prepare for leadership and thus, will need less persuasion.

The cooperative development process, cooperative membership, and leadership all build social capital (norms, relationships, reputation, etc.) and in turn, social cohesion (the ability to function as a unit) within the community (Fairbairn 2004; Putnam 2000; Walzer and Merrett 2001). Social capital, like financial capital, is a resource individuals and a community can use to build or strengthen organizations. An individual's ability to "trust" others is an important outcome, or one measure, of social capital; if you build social capital you build trust. Trust, in turn, lowers the transaction costs of collective action (Putnam 2000). Co-ops build social capital by providing opportunities for increased community interaction (Green and Haines 2002; Putnam 2000; Tolbert et al. 2002). Members interact at cooperative meetings, educational events, and through board service. Further, cooperative buildings (e.g., community rooms at cooperative groceries or the local farm supply store) often serve as a vital connection point for the community, providing a physical place for members and non-members to informally come together and interact (Fulton and Ketilson 1992; Wilkinson 1991). Cooperatives have the potential to engage diverse segments of a community; subpopulations that may have no other reason or opportunity to interact. Cooperatives provide an efficient vehicle for community members to realize the returns on their social capital investment (Fairbairn 2004).

Cooperatives also generate financial returns on local financial capital. Cooperatives help communities overcome a significant barrier to business development—lack of equity capital—by mobilizing and aggregating local financial capital. If successful, cooperatives increase a community's financial capital since the cooperative owners are generally local residents. Therefore, the community retains a greater share of the business profits than would be the case with a publicly traded firm (whose shareholders may be scattered across the country) and the wealth is distributed among more residents than would be the case with a smaller partnership or sole proprietorship, with profit sharing limited to only a few. Cooperatives may also challenge local monopolies by offering competitively priced products and services, thereby increasing consumers' purchasing power (Fulton and Ketilson 1992).

Financial capital and social capital are interrelated. As MacLeod (2004) summarizes:

> *"True financial capital is built upon social capital, depends upon it, and has its source in it. If financial capital is mobile, then it absorbs and uses social capital and moves on, leaving behind a depleted society. To be sustainable, financial capital must feed back into the social capital and, as more financial capital is developed, social capital will be reinforced"* (p. 310).

This connection is important when considering alternative cooperative models. Successful NGCs, by virtue of their structure and their ability to compete in value-added agriculture, generate greater financial returns than traditional cooperatives, which makes them a popular model in agriculture (Walzer and Merrett 2001; Zeuli and Cropp 2004). With closed membership not everyone in the community has the opportunity to reap the benefits, creating a potential rift in the community or an exacerbation of income divisions. NGCs typically require high up-front membership fees (in order to raise enough capital to support building their business enterprise), meaning some community residents may not be able to afford membership. The financial capital built by NGCs, therefore, may not create greater social capital. The same situation holds for the PIC model (or with large traditional cooperatives), but for different reasons. In both situations a significant portion of the cooperative's benefits could flow outside the community.

Many cooperatives are established to strengthen a specific community asset. For example, a local economic development organization in California decided to create a cooperative (the Foodworks Culinary Center) with an incubator for small food processing companies and a community kitchen to add value to their primary resource—a variety of locally grown fruits and vegetables (Zeuli et al. 2005). In Canada's remote Artic north, cooperatives have been developed to promote the production and sale of Inuit art (Wall, Duguay, and Rohan 2004). The process used to develop these cooperatives mirrors the type of asset-mapping advocated in asset-based development.

Self-development

Perhaps the most radical of the three approaches, self-development opposes the notion that local development is predetermined by resource endowments or exogenous factors (Shaffer, Deller, and Marcouiller 2004). In contrast to the other two approaches, it specifically calls on community residents to use local financial resources to create businesses that are locally owned and controlled (Blakely 1994; Green et al. 1990; Sharp and Flora 1999). It seeks to completely internalize community development by diminishing and ultimately eliminating the role of external agents: "The objective of self-development efforts is to gain control of the local economy by the community…Self development efforts operate for the benefit of the whole community while promoting the collective management and ownership of the enterprises" (Shaffer, Deller and Marcouiller 2004, p. 228). Conceptually, it is closely related to the social economy model, which advances collectively-owned enterprises: "…actors in the social economy endeavor to organize citizens to become agents of their own development, primarily through enterprises that embed social goals in their business operations" (Lewis 2004, p. 7).[11]

Cooperatives, by definition, are an obvious vehicle for achieving these objectives. In general, since cooperative owners are also community residents, they are acting rationally when they choose to accept lower profits or decreased benefits from their co-op investment if the tradeoff provides an important service or product in the community (Enke 1945; Fulton and Ketilson 1992; Fairbairn et al. 1991). In contrast, non-cooperatives and enterprises owned by non-local investors are likely to be guided by shareholder profits.[12] This premise explains why cooperatives were historically the major providers of electricity and telephone service to sparsely populated rural areas in the U.S. Empirical research by Bhuyan and Leistritz (2000) and Fulton and Ketilson (1992) further support this premise. Both studies found various types of cooperative businesses that were created because other types of firms were unwilling to provide the goods and services. Zeuli et al. (2005) highlight the case of a cooperative internet service provider. A community college in Maryland realized that its students and the community at large needed improved local Internet access, but national service providers were not interested in investing in their small community; they created a cooperative to solve their problem.

Cooperatives are often developed in response to a small town or urban neighborhood's desire for self-sufficiency. For example, purchasing cooperatives (a large cooperative owned by smaller businesses) are often used to help small, local businesses compete more efficiently against large-scale "big box" retailers. The small businesses would be unable to achieve the same purchasing power on their own. Some well-known examples include ACE Hardware (owned by 4,800 retailers) and Wakefern Food Corporation (owned by 43 grocery retailers who operate the ShopRite grocery stores) (NCBA 2005).

Consumers are also banding together to keep local grocery stores in their neighborhoods or towns. For example, in a small mill town in Quebec, a few residents started a local co-op that restored the grocery, fuel, and postal services that were lost when the mill closure lead to the only local store going out of business (Wall, Duguay, and Rohan 2004). Some inner-city neighborhoods underserved by grocery stores are also turning to cooperatives. Although consumer co-ops in urban areas are generally located in higher income neighborhoods, Co-op Markets in Chicago, Cass Corridor Cooperative in Detroit, and Flatbush Food Co-op in Brooklyn all serve low income urban neighborhoods (Nadeau 2001). More than a convenient place to shop, these stores give consumers control over their food choices and offer lower cost products, as well as help stop the economic decline of their communities.

Local cooperatives, especially those that depend on local demand, also frequently invest in their communities (Stafford 1990; Trechter 1996). For example, rural electric and utility cooperatives sponsor distance-learning technologies in rural schools, finance the building of physical infrastructure, and make direct equity investments in local businesses (Stafford 1990; Thompson 2002). Many rural electric cooperatives also operate community economic development programs (e.g., industrial parks) and even manage community development centers (e.g., the Keystone Development Center in Pennsylvania that has a cooperative-oriented development mission). Consumer grocery stores are another example; they also invest in community development programs (e.g., managing community development funds) and local agriculture (Zeuli et al. 2005).

Cooperatives also invest in their communities in reaction to a crisis. For example, local agricultural cooperatives frequently purchase non-related (and often not very profitable) stores (e.g., bakeries, car washes, and auto parts) in their towns (Stafford 1990; Trechter 1996). Typically, they are the buyers of last resort; without their purchase the stores would close and community residents would be forced to find the same services in another town (Fairbairn et al. 1991; Stafford 1990). The co-op members may recognize not only a

[11] The social economy is distinguished from asset-based and other community development paradigms by two main precepts: its focus on the enterprise rather than the community (Lewis) and a stricter (or more socialistic) set of guiding values for the enterprise (e.g., solidarity and democratic decision-making).

[12] Tolbert et al. (2002) offer an interesting alternative premise. They argue that a firm's local orientation, a function of size, scope, and longevity rather than legal business structure, determines its commitment to communities. Locally oriented firms (owners, managers, and other employees) will make decisions that benefit the community as well as their own interests because they are socially and financially invested in the community. Their argument is valid for locally owned firms, but not for firms owned by non-local shareholders. The latter will demand decisions that maximize their shareholder value.

personal inconvenience if they fail to act, but also the long-term negative economic and social impacts that failed businesses impose on their community. In all of the cases mentioned above, the cooperatives are traditional cooperatives. It is unlikely that NGCs or PICs, with their concern for investment returns, would invest in non-profitable community businesses.

Worker-owned cooperatives, in contrast, embody many of the self-development concepts. They differ slightly in that they are usually not designed to serve geographically defined communities, but rather a group of workers (Kreiner 2003). They are established to provide stable employment opportunities and to improve job quality (work conditions, higher wages, more benefits and career development opportunities) (DiMarcello 1998). For example, Cooperative Home Care Associates, a worker-owned cooperative training program that provides home health aide services in New York City was started to improve working conditions in the industry and create job opportunities for low-income women (Kreiner 2003). Net profits are reinvested in the company and its workers or paid out as dividends to the members rather than shareholders (DiMarcello 1998). Management costs can be lower because of lower salaries (less than industry averages and hence, more inline with employee salaries) and fewer management positions.

4. Challenges of Co-op Development

Contemporary community development paradigms encourage communities to rely on their internal resources (human, social, environmental, financial, and physical) to solve community problems. As discussed in section three, cooperative businesses can be adapted and used in a number of self-reliant strategies, including self-help, asset-based community development, and self-development community development. Yet, cooperative development and governance can strain the community capital resources it mobilizes, especially in limited-resource or declining urban and rural areas.

Human Capital Issues

Often under these conditions community members are struggling to meet their basic needs and do not have the time or energy to engage in activities that do not contribute to their immediate well being. Cooperatives generally require a significant dedication of time by the initial community organizers (especially if it is truly a grass-root, bottom-up effort) and future leaders (as directors and active members). In limited-resource communities, the cooperative members may have limited business and leadership experience, requiring more training than in other areas (Darby 2000; Richardson 2000). Urban communities may also lack experience with the cooperative model. Some consumer and worker-owned cooperatives also require members to provide sweat equity as well as a financial investment in order to become a member. The opportunity costs associated with the human capital investment balanced against the returns provided by the co-op may tip the scale against a community member participating in the cooperative. Therefore, the time individuals in the community have to contribute to the development and running of a cooperative is one of the limiting factors in using cooperatives as a community development strategy.

While cooperatives initiated through a top-down approach may demand less human capital than those organized through a bottom-up approach, they are less likely to "institutionalize" a community development process and are more prone to failure (Zeuli et al. 2005). Since the members are not involved in the creation of the cooperative, they may never feel a true sense of ownership and loyalty. This estrangement means that once the co-op is no longer needed or when the returns from individual efforts outweigh the common good (e.g., the business profits they can achieve individually exceed what they would earn acting cooperatively), the cooperative will have difficulty retaining its member support.

Social Capital Issues

The willingness of people to cooperate and trust is a fundamental building block in a cooperative development strategy. Communities with established networks and relationships (civic communities) build trust and make organizing efforts easier (Tolbert et al. 2002). In distressed rural areas networks may be severely eroded due to diminishing access to local institutions, such as schools, churches, or service organizations. Further, residents may not have had positive experiences working together; local rural community meetings (e.g., land-use planning, zoning, or closures) can often be contentious rather than collaborative (Darby 2000; Richardson 2000). In urban areas, trusting relationships may be harder to establish because housing tenure is generally shorter and there is a greater diversity of people within the community. In both types of communities the ability to organize a cooperative becomes more difficult and time consuming because basic community organizing activities must take place first in order to begin to build community relationships. Cooperative leadership may also be more challenging if members wind up spending a lot of time arriving at group consensus (Darby 2000).

In addition, the type of cooperative structure that is adopted can affect social capital within the community. For example, NGC's have closed membership and thus, not everyone in the community has the opportunity to participate in the cooperative and reap the potential benefits generated through its development. If successful, this creates a chasm between the "haves" and "have nots" in the community, creating a new source of community tension. Community support for cooperatives is essential to their viability and success (Zeuli et al. 2005; Fairbairn et al. 1991; Merrett and Waltzer 2001; Wilkinson and Quarter 1996).

Financial Capital Issues

By definition, cooperative members are required to own a portion of their organization. Equity constraints are a challenge for all cooperatives, but they might be especially severe for cooperatives in limited-resource communities where members do not have the surplus financial resources to invest in a business venture, cooperative or otherwise. Since cooperatives are often being created to provide necessary but not extremely profitable businesses, they also can be considered risky by the lending community, making member equity more of a necessity. Members may also have limited access or be unable to acquire their own loans to cover their equity investment. In addition, if the venture fails, a large portion of the community's financial capital might be lost, thus jeopardizing existing and future community enterprises.

The challenges posed above are not insurmountable; overcoming the seemingly impossible is a hallmark of cooperatives historically. Prior to setting forth on a cooperative development initiative, community organizers (whether professional community development practitioners or community members themselves) should consider these challenges and possible solutions. For example, they may have to find more training opportunities (and efficient ways to provide the training) for members or seek grants and/or special loans to help meet their capital requirements.

5. Conclusion

In this article we introduce cooperatives as a strategy that compliments contemporary community development paradigms. A better understanding of cooperatives is necessary to help community development practitioners explore this development option and use it appropriately. By virtue of being locally owned and controlled, cooperatives can solve local problems by mobilizing local resources into a critical mass. In addition, they can pursue social objectives that would not be provided by purely profit-oriented firms.

Our overview points to the flexibility of cooperatives as an organizational form and illustrates how cooperatives can be used within community self-development initiatives as a way to create locally owned and controlled businesses, providing an alternative to the more traditional business recruitment strategy. Cooperatives can be (and have been) established in virtually every sector in the economy. However, cooperatives can also strain the community capital resources they mobilize and build, especially in urban or rural areas that are in social or economic decline. Therefore, as with any community development strategy, the community needs to carefully consider the co-op model's potential benefits as well as costs.

Community development scholars and practitioners interested in learning more about cooperatives can avail themselves of a variety of resources: cooperative development organizations, cooperative councils, university cooperative centers, and extension educators are available in every state. Motivating them to think about cooperatives as a community development strategy in the first place requires better education programs about cooperatives at the community and regional level. Most cooperative programs, especially those used to generate revenue for their organizers, are focused on specific development strategies and board training. Support from universities, extension, and government agencies is required for more general (and more geographically extensive) co-op education programs.

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