SOCIAL RESPONSIBILITY IN COOPERATIVES: A CONTRIBUTION FOR SUSTAINABILITY

Abstract:

Europe is in a deep economic crisis and social economy and cooperatives are getting more interest by academics, firms and politicians because they can contribute to the economic, social and environmental development, in a sustainable and responsible way, being key for the implementation of new employment sources and the expansion of social responsibility as a development mean.

The aim of this working paper is to identify the factors underlying the differences in the SR behaviour of small and medium labour cooperatives, one of the main categories of social economy in different European regions. Based on the literature review, we propose a selection of factors that may be in the roots of the SR.

First, the cooperative’s principles are assumed at the basis of the values of the cooperative firm. In this case, we discuss the relevance of the leaders’ alignment with these values as factors influencing the SR heterogeneity. Second, the alignment of the cooperative values among different internal stakeholders is taking into account and, finally, the degree of implementation of these cooperative values into social initiatives is affected by the relationship with internal and external stakeholders.

Key words: social responsibility behaviours, social capital, stakeholders, cooperative principles.

Econlit: P130, L300, L290
1. INTRODUCTION

Current crisis situation has evidenced that the short term orientation and lack of business ethics is not a sustainable model. Following the definition of Corporate Social Responsibility (CSR), given by the European Commission, it is defined “as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders”\(^1\). Some authors, such as Server and Capo (2009), claim that the development of an “integrated management” of SR\(^2\) will generate a positive effect in achieving a competitive advantage. In this sense, the crisis highlights the necessity of the SR behaviour in business. This is why, in a situation where Europe is in a deep economic crisis and where firms are struggling, social economy and cooperatives are getting more interest by academics, firms and politicians because it could be an alternative to create new jobs and to improve the situation of sustainable firms. Cooperative firms can contribute to the economic, social and environmental sustainable development, expanding SR as a development mean (Vargas and Vaca, 2005; Puentes and Velasco, 2009).

In the case of the cooperatives, the aim of satisfying the needs of different stakeholders in a balanced way, due to its characteristics could be easier than in other types of firms (Arcas and Briones, 2009). On the one hand, the effect of the double condition of partners/owners that often act also as clients/suppliers (Server and Capo, 2011) enables the direct relationship and immediate desire of satisfying interest of the stakeholders implied. On the other hand, the identity of cooperatives fits well with the expected values of the European society such as democracy, equality, equity, solidarity, etc. Products are bought and sold not for the tangible characteristics, but also because of the intangible values, and cooperative firms add to their product and services values that are shared in our society (Vargas and Vaca, 2005).

Accordingly to the presented link between SR and cooperatives, it could be expected cooperatives to develop a homogeneous socially responsible behaviour. However, in order to deploy it, the “cooperative soul” has to be communicated in order to be shared and interiorized by all members of the organization (Vargas and Vaca, 2005) and, also, by all the stakeholders of the cooperative. Given the large number of agents implied and

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\(^1\) As we focus on SMEs, CSR is replaced in this study by the term Social Responsibility (SR).

\(^2\) SR (Social Responsibility) is considered more accurate than CSR in the field of SMEs.
their participation in decisions, the process cannot be lineal and generate a unique result, but a complex integration of interests and contexts results in a large variety of SR behaviors in cooperatives.

In this working paper, we try to identify the factors underlying the differences in SR approach of small and medium labour cooperatives, one of the main categories of social economy in different European regions. Based on the literature review, we propose a selection of factors that may be in the roots of the SR heterogeneity. First, it is considered that, in the particular case of cooperatives, the cooperative’s principles are at the basis of the values of the firm, but they are not shared in the same way among all the cooperative members. In this context we discuss both, the alignment of values with the cooperative principles among different cooperative’s agents as a factor influencing the SR heterogeneity (Seguin and Guerrero, 2005; Fortier, 2011). Second, the alignment of the cooperative values among other internal stakeholders is taking into account. Finally, the existing relationships among different stakeholders may also affect the social behaviour of cooperatives (Zhou, 2007; Ciruela, 2009) and the degree of implementation of these cooperative values into social initiatives is affected by the relationship with internal and external stakeholders.

2. COOPERATIVE PRINCIPLES AND SOCIAL RESPONSIBILITY: FACTORS UNDERLYING SR BEHAVIOURS IN SMEs

According to the International Cooperative Alliance a co-operative is “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”. They are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

http://www.cdi.coop/icaprinicples.html
Since their origin, 150 years ago, the cooperative’s values and principles have considered the ethical values of honesty, transparency, social responsibility and environmental care, which are also the basic elements of the SR long term engagement (Server and Capo., 2009). Therefore, it can be state that there are a large number of commonalities between the cooperative principles, the business ethics guidelines of cooperatives, and SR (Table 1).

**Table 1: Seven cooperative principles and CSR**

<table>
<thead>
<tr>
<th>Cooperative principle</th>
<th>CSR (European Commision)</th>
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<tbody>
<tr>
<td>1. Voluntary and Open Membership</td>
<td>Voluntary nature of SR</td>
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<td>2. Democratic Member Control</td>
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<td>3. Member Economic Participation</td>
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<td>4. Autonomy and Independence</td>
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<td>5. Education, Training and Information</td>
<td>Credibility and transparency of CSR practices</td>
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<td></td>
<td>Attention to the specific needs of S:Es</td>
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<td></td>
<td>Balance and all-encompassing approach to CSR, including economic, social and environmental issues as well as consumer interests</td>
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<td>6. Co-operation among Cooperatives</td>
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<tr>
<td>7. Concern of Community</td>
<td>Focus on activities where Community involvement adds value</td>
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<td></td>
<td>Support and compatibility with existing international agreements and instruments.</td>
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</tbody>
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Source: Server and Capo (2009)

The specificity of cooperatives behaviour is rooted in seven social principles. Due to these principles, cooperatives are expected to be responsible towards their members and the society in general and, at the same time, economically viable (Mozas and Puentes, 2010). These principles promote the solidarity, the participation and the co-responsibility as a result of the collective ownership and the democratic management (Marcuello and Saz, 2008).

In fact, there has been an increasing interest in analyzing SR and cooperatives. In order to illustrate these behaviors in cooperatives different case studies have been developed showing a large variety of activities deployed, agents involved and business dimensions developed. Recently, Arcas and Briones (2009) have analyzed SR in social economy and identify significant differences in socially responsible values and behaviors between cooperatives and labor societies. In particular, cooperatives marked better that labor societies in values related with responsibility, dialogue, cooperation, social integration, participation and engagement. They also appreciate more the business cooperation agreements and the environmental management.
But what factors are behind small and medium cooperatives SR behaviour? Different authors (Longenecker et al., 1989, 2006; Vyakarnam et al., 1997; Lepoutre and Heene, 2006; and Preuss y Perschke, 2010) identify different reasons of heterogeneous SR behaviours in SMEs, as it can be seen in Table 2.

Longenecker et al. (1989) analyse the differences among managers’ ethical behaviours in US small and large firms. To capture this information, the authors propose several situations where managers are expected to take ethical decisions. As a result, they identify four specific factors of the ethical behaviours in small firms. First, financial resources have a straight impact on the owner-managers decisions in small firms and, therefore, on the possibility of developing ethical actions. Second, owner-manager attitudes are portrayed in the ethical activities of small firms. Third, small firms’ management system can be described as non-formal and scarcely controlled, reducing the internal pressure to behave ethically. And finally, industry conditions the ethical behaviour of small firms and their rivals.

Vyakarnam et al. (1997) identify some factors that affect the ethical behaviour of small firms. First, personal characteristics of owner-managers affect the selection of ethical activities in small firms. If owner and manager do not coincide, shareholders or owners of small firms influence in the ethical decisions of the managers and control the resources allocated to these activities. Second, the economic situation can enable or not the development of different initiatives. As a result, decisions about ethical activities can be affected by the economic situation though the influence in the leaders perspective. And third, the ethical code and the firm culture, defined by the small firms’ owner-managers, influence all the members of the firm. Therefore, they can enhance ethical behaviour and eliminate unethical ones.

Lepoutre and Heene (2006) review the literature to identify the factors that affect the social responsibility in small firms. Based on different authors (d’Amboise and Muldowney, 1988; Chau and Siu, 2000; Solymossy and Masters, 2002 and Longenecker et al., 2006), they conclude that the factors that condition the heterogeneous SR behaviour of small firms are: situational, refers to the SR approach of small firms in order to satisfy their different stakeholders; personal, is related with the owner-manager’s values, competences and activities; organizational, focuses on the
internal structures and resources of small firms; and contextual, is concerned by the influence of economic situation, institutional requirements and stakeholders’ pressures.

Longenecker et al. (2006) try to identify the variables that influence the ethical behaviour of small firms. The main identified factors by these authors are two. On the one hand, the personal factor is concerned with the personal values and previous experiences of owner-managers, as they condition the objectives and ethical benefits that are expected. On the other hand, the situational factor includes the financial resources capacity, the market position, the value chain agents’ power and the scarcely formal management mechanisms and systems that condition the ethical behaviour nature.

Kusyk and Lozano (2007) consider the influence of the main stakeholders as the main factor of the SR heterogeneity in SMEs. The authors state that the stakeholders influence strongly the SR decisions in SMEs and, therefore, that they are not totally autonomous to take decisions based their own values. In particular, they consider that, on the one hand, the 38% of the facilitators and the 50% of the SR decisions’ barriers in SMEs are related with internal stakeholders. On the other hand, the 45% of the facilitators and the 38% of the barriers are related to the external stakeholders.

Based on the agency theory and the resource based view approach, Preuss and Perschke (2010) discuss about the relation between firm size and SR strategies and activities. As a result, they identify some factors affecting on the SR opportunities, limitations and performance of different firm categories. First, the ownership factor influence the SR management in SMEs through the relevance of personal values of owner-managers in developing SR. Second, the relationship with stakeholders condition the engagement of SMEs with stakeholders and their SR activities. Third, the SR management experience of the owners is critical because it conditions the SR activities and strategies. Fourth, the organizational structure of SMEs affect to the level of formalization of the design and implementation of SR activities. Fifth, the market type influences the demand and the requirements provided by the main stakeholders.

Although it seems that all the mentioned factors are different, some have a similar nature and they can be reclassified under the same label. Therefore, we propose the following classification of factors influencing the SR behaviour in SMEs (see Table 4).
3. FACTORS UNDERLYING SR BEHAVIOURS IN SMEs

LABOUR COOPERATIVES

Based on the factors identified in the previous section related to SMEs in this section, we propose a selection of the main specific factors to understand the heterogeneous SR behaviour in small and medium sized labour cooperatives: firm values and relation with stakeholders.

Firm values: The level of presence and alignment around the cooperative principles

This factor assesses the firm values influence in the SR behaviour (Longenecker *et al.*, 1989 y 2006; Vyakarnam *et al.*, 1997; Lepoutre and Heene, 2006; Kusyk and Lozano, 2007 and Preuss and Perschke, 2010). In cooperatives, we assume that these values are based on the cooperative principles. The cooperative principles can impact on the real implementation of SR practices in two ways: considering the employees, not only objects, but also subjects of the SR practices and second, due to the employees’ co-responsibility implicit on the firm purposes.

However, this alignment of the individual values of the members towards the cooperative principles is not an immediate result in the practice. The “cooperative soul” can be deteriorated along the time and it can be diluted or cannibalised by other values
or particular interests, weakening the cooperative values and, therefore, reducing its SR or focusing it in operational issues, instead of consolidating strategic behaviours.

Consequently, the presence of the cooperative principles in the mission statement or in the strategic approach of the cooperatives can influence the development of SR.

**Proposition 1: The presence of the cooperative principles in the cooperative mission enhances SR practices, in small and medium cooperatives.**

In SMEs, owner-managers control the management of the firm and the resources allocation in different activities, such as SR activities (Longenecker *et al.*, 1989 and 2006; Vyakarnam *et al.*, 1997; Spence, 1999 and 2007; Spence and Rutherford, 2003; Spence *et al.*, 2003; Jenkins, 2004, 2006 and 2009; Fox, 2005; Lepoutre and Heene, 2006; Kusyk and Lozano, 2007; Fassin, 2008; Perrini and Minoja, 2008; Jamali *et al.*, 2009; Harms *et al.*, 2010; Preuss and Perschke, 2010; Russo and Perrini, 2010 and Von Weltzien and Shankar, 2011). This influence has been theoretically reasoned and empirically tested (Dawson *et al.*, 2002; Jenkins, 2006 and 2009; Longenecker *et al.*, 2006; Murillo and Lozano, 2006; Hammann *et al.*, 2009; Jamali *et al.*, 2009; Russo and Tencati, 2009; Harms *et al.*, 2010 and Mababu, 2010).

Socially responsible decisions depend on the cognitive moral development of the owner-managers (Longenecker *et al.*, 2006). However, in cooperatives managers are not always owners of the firm. In this case it has to be considered that each individual develops a cognitive capacity as a result of his or her previous personal experiences (Kohlberg, 1969). This cognitive capacity influences the future objectives and ethical decisions. According to his theory, owner managers would take their ethical decisions depending on their cognitive moral development. When the cognitive moral development level is low, called pre-conventional, the decisions are based on the short term results. When the level is medium, the conventional level means that the decisions are taken to satisfy social expectations. In the last level, ethical issues are dealt with. In synthesis, the higher the cognitive moral development, more ethical the decisions taken by the owner-managers are.

It depends, primarily, on the integration of these principles by the manager of the cooperative. If the manager is not an associated member of the cooperative, owners’ values have to be aligned with the managers’ values in order to enhance SR behaviours. If both groups’ values are aligned, applying the stewardship theory, members trust on
their managers and SR activities are easily developed (Davis et al., 1997; Godos-Diez et al., 2011). However, if they are not aligned, agency cost will arise (Jensen and Meckling, 1976), due to the conflict between the owners and the managers’ interests (Davis et al., 1997).

Proposition 2: The alignment between the leaders’ values and the cooperative principles enhances SR practices in small and medium cooperatives.

Similarly to SMEs (Spence and Rutherfoord, 2003 and Longenecker et al., 2006), in the cooperative case, the owners are also workers in the firm. However, two main differences arise in the case of cooperatives. First, the cooperative is usually a collective project, where we don’t find a unique owner, but a group of owners and, second, the owners share or they are supposed to share the cooperative principles. This characteristic requires the alignment of the individual values of the members around the cooperative principles in order to enhance SR behaviours because the owner-workers act as leaders of the principles, becoming subjects (and not objects) of the firm. The homogeneity of values based on cooperative principles reinforces the decisions in line with SR. Consequently, the level of internal cohesion around these principles can influence the development of SR in small and medium cooperatives.

Proposition 3: The alignment between the members’ values and the cooperative principles enhances SR practices in small and medium cooperatives.

The relationships with internal and external stakeholders

One of the main purposes of SMEs is to create value to their stakeholders (Perrini, 2006). In SMEs the relationships with stakeholders are frequent and usually personal (Spence, 1999; Burns, 2001; Spence and Rutherfoord, 2003; Jenkins, 2006 and 2009) and, as a result, a fluent and open dialogue between the SME and them is carried on (Vyakarnam et al., 1997; Spence, 1999; Spence and Rutherfoord, 2003; Jenkins, 2006 and 2009; Fuller and Tian, 2006; Lepoutre and Heene, 2006; Fassin, 2008; Jamali et al., 2009; Preuss and Perschke, 2010 and Russo and Perrini, 2010).

Stakeholder-firm network generation is a key factor in the SR promotion (Russo and Perrini, 2010). Mutual trust and norms between are at the basis of the social capital. Inside this network, stakeholders and firm worries, objectives and projects are
exchanged in an informal, familiar and current dialogue. The agents can capture the information and, if the principles and values are present, try to engage with SR practices (Vyakarnam et al., 1997; Joseph, 2000 and Russo and Perrini, 2010).

Therefore, in one hand, in the case of SMEs it has been tested the relevance of the internal stakeholders orientation in SR practices (Spence, 1999, Curran et al., 2000, Fuller and Tian, 2006, Hammann et al., 2009, Russo y Perrini, 2010 and Baden et al., 2011). This relevance is, in small and medium sized cooperatives, even greater as the implementation of the cooperative principles promote a participative and democratic model of management, enhancing the engagement and the commitment of the cooperative members and in this way the SR practices.

**Proposition 4: The embedded internal relationships of the firm enhance SR practices with workers in small and medium cooperatives.**

Although SMEs focus rather on employees than on society or local communities (Baden et al., 2011; Curran et al., 2000); in the case of cooperatives, other stakeholders are also considered. As happens in a large number of SMEs, they are usually the suppliers and the customers of large firms along the value chain (Jenkins, 2004, Maloni and Brown, 2006, Spence, 2007, Preuss and Pershke, 2010, Russo and Perrini, 2010 and Hammann et al., 2009). In these cases, the SR is determined by these relationships. On the one hand, the shared trust and norms among external stakeholders and cooperatives principles will derive in higher social capital and it would increase SR. On the other hand, large firms can impose conditions based exclusively in economic criteria, avoiding the possibility of SR in cooperatives.

Additionally, as happens in other SMEs, they are also voluntary involved in SR due to their visibility in their community and it can be an important source of motivation to develop SR practices (Bowen, 2000; Roberts et al., 2006; and Harms et al. 2010). Depending on the embeddedness of the external stakeholders, the SR practices will be enhanced in small and medium cooperatives.

**Proposition 5: Embedded external relationships of the firm enhance SR practices with external stakeholders in small and medium cooperatives.**
4. CONCLUSIONS

Due to the cooperative principles, socially responsible behaviours are expected in cooperatives, but this SR is not homogeneous. In fact, a variety of social responsible behaviours have been identified (Arcas and Briones, 2009). Yet it is critical, the role of understanding SR heterogeneity in small and medium cooperatives has not typically entered into the study of these firms.

Therefore, and based on the literature review, in this working paper we identify a set of factors underlying the differences in SR approach and that may be in the roots of the SR heterogeneity of small and medium cooperatives. As such, we propose a theoretically-informed set of specific factors for analysing the reasons of the heterogeneity of SR in small and medium cooperatives.

The cooperative’s principles are considered at the basis of the values of the firm, but they are not always shared among the cooperative members. These cooperative principles are shared or not among the cooperative workers and leaders improving or depleting the social capital of the cooperative and its SR. In this context, we discuss how the presence of this principles and the alignment of values between cooperative leaders and members and cooperative’s principles influence the SR heterogeneity.

Besides the cooperative principles, the characteristics of the relationship with the internal and external stakeholder of the cooperative play a relevant role in the development of SR activities. Therefore, the embedded nature of the relationships with the different stakeholders may also affect the implementation and the social responsibility of small and medium cooperatives.

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