



Jobs, growth and long-term prosperity through the co-operative model

Co-operatives and Mutuals Canada (CMC) is the national association representing co-operative and mutual businesses, sector federations and provincial associations. CMC activities are targeted at helping co-operatives and mutuals form, develop and thrive in their communities. CMC also supports wide-ranging research in partnership with leading research institutions and government to inform policy decisions.

Co-operative and mutual enterprises have and will continue to play a significant role in ensuring fiscal sustainability and economic growth in every region of Canada. As an innovative business model, co-ops and mutuals offer sustainable growth and prosperity for the long-term.

The co-operative business model is inherently innovative. A co-operative or mutual is an enterprise that is owned by its members and operates democratically, every member has a say. Co-operatives and mutuals serve the economic and social interests of their members and offer goods and services based on a well established set of values and principles.

The co-operative model is based on the autonomy and independence of individuals and communities. Co-operative enterprises strengthen local economies and are a proven way to improve quality of life. This is because they embrace a principal of care for their communities that results in sustainable business practices and thoughtful community economic development. The co-op model encourages participation of its members which in turn encourages innovative ideas and solutions from the grass roots.

There are three key reasons that co-operatives have an “innovation advantage”

1. Financing innovation that drives economic growth and jobs takes courage. Innovation is not only the search for ways to make things leaner, more efficient, which tends to shed jobs and can leave capital under-utilized, it is also about broader effort to improve all business processes. Innovation that drives sustainable growth and employment are breakthrough ideas that need investment to start up, sustain or expand. That is why the Canadian co-operative movement has committed \$25 to \$30

million for the Canadian Co-operative Investment Fund (CCIF), to loan capital to co-operatives.

With a \$25 million base, it is anticipated that the CCIF will positively impact approximately 180 enterprises providing \$45 million in capital investment over a ten year period. If the Fund is able to secure \$70 million in pledges it will positively impact 854 co-op enterprises with a cumulative contribution of \$134 million to the sector over the same ten year period. An study on the estimated effect of the CCIF by the Canadian Co-operative Association estimates that 11,200 jobs would be created over 10 years. The CCIF will reinvest its earnings – beyond those that are paid out in the form of dividends and those that must be retained to ensure the long term viability of the CCIF – back into the sector to support further development of Canadian co-operatives and mutuals.

2. Innovation requires patient capital investment. Successful co-operatives and mutuals understand the value of long-term thinking, and they are sometimes better positioned to make those types of investments because the perspective member owners are attuned to the best overall business plan rather than the fastest return on capital.

Some innovative solutions may require sustained periods of investment before generating the type of returns that are demanded of private capital. The year over year perspective of a co-operative member can be very different than the quarter to quarter thinking of a shareholder. Challenges in areas like technology and talent management are the same for co-operatives and privately owned businesses alike. Recent studies show that many CEOs of publicly traded companies do not believe that they have the talent in place to achieve their strategic goals and that they struggle to invest strategically in talent management. Co-operatives and mutuals face a similar challenge, and they are making significant investments to make their talent management processes the “best in class” – this is an example of long term thinking that may increase short term costs.

In the co-operative and mutual sector worldwide, there is a stated objective of becoming the fastest growing model of enterprise by the end of this decade. In Canada, we have already witnessed the recent expansion of many well-known co-

operatives. This is a signal that we are in a period of general expansion in the sector and it also demonstrates how serious we are about achieving this objective. If co-operatives and mutuals do become the “fastest growing form of enterprise” we are going to significantly expand the 3% we currently contribute to Canadian GDP and become a powerful engine for job creation and prosperity.

Co-operatives and mutuals are requesting that the federal government demonstrate its support for this ambitious objective by developing and implementing, in partnership with the co-operative movement, a national development strategy.

We would suggest a comprehensive approach based on the five pillars of the International Co-operative Alliance's *Blueprint for a Co-operative Decade*.

- I. Elevate member **participation** and governance to a new level: Develop partnerships with other public institutions to foster innovation and facilitate the exchange of best practices and knowledge. Also, we would ask government to do what is possible to provide co-operatives and mutuals the same level of access to capital and investor participation as private companies enjoy.

- II. Position co-operatives as builders of **sustainability**: Co-ops and mutuals invest for the long-term. Instead of striving towards quarterly results and the short-term return on investment, co-ops and mutuals are charged with making sure that the enterprise will continue to serve its members and the community for many years to come. Investments are made with this mindset and the historical evidence suggests that co-ops and mutuals are champions of sustainability. Co-operatives have been sustainable builders of the Canadian economy for 150 years. The government needs to support and promote this valuable attribute of co-operative enterprises as a strategic and stable economic development tool.

We know that the survival rates of new co-ops are double that of other businessesⁱ, and therefore it is in the federal government interest to offer the same services to co-ops and mutuals that are offered to other forms of business.

- III. Share the co-operative principles and secure the co-operative **identity**: Despite a 160 year history in Canada, the co-operative model, its principles and its advantages are not well understood by Canadians. We need to increase public awareness and we also need to educate all levels of government about the clear societal benefits of the co-operative and mutual models.
- IV. Ensure supportive **legal frameworks** for co-operative growth: The legal framework can play a determining role in the growth of the co-operative and mutual sector. Some aspects of the Canada Co-operatives Act could be modernized to strategically promote economic growth; the 2012 Special Committee demonstrated how willing the sector is to consult on these opportunities. The federal government must also define a demutualization process that respects intergenerational equity and protects the assets of mutual enterprises.
- V. Secure reliable **capital** investment for co-operatives while guaranteeing member control: The government needs to review the issue of capitalization of co-operative enterprises. This includes the challenges of securing capital investment, the impacts on growth, as well as potential solutions to this crucial barrier. This is the single biggest factor that can unlock economic growth in the sector. The Canadian Co-operative Investment Fund will be an important step forward, but a more in-depth study needs to be undertaken to enable co-operatives and mutuals to create jobs and economic benefits in our communities.

The co-operative movement will invest and work towards these five pillars, but we need the federal government support this strategy with effective public policies that will promote sustainable economic development through the co-operative model.

- 3. Co-operatives and mutuals are driven by both economic and social concerns. They are community based organizations that are not only about the bottom line, but about the needs of their members and the quality of life in their communities.

Hence the notion of demutualization must be based on a clear set of guidelines to be in-line with the second co-operative principle: Democratic member control.

Because co-ops are run democratically they will be guided by the members in deciding if demutualization is in their best interest and in the interest of the co-op. This process requires clear regulations that would govern the demutualization process.

We believe that in a demutualization process, all policyholders in a mutual company who have contributed to the underlying value of the company should be treated in the same manner with respect to the right to vote and right to receive a portion of a mutual company's residual value and not just the current 'mutualist' policyholders. Recent proposals to share in the underlying value of property and casualty mutual insurers, that have been built up over many decades by people that are no longer at the table, constitutes unjust enrichment and creates a "circle of self-interest" which is not in the best interest of the mutual.

If efficiency was the only motivation of co-operative businesses, there are hundreds of communities in Canada where co-ops and mutuals would no longer have a presence. Co-op member-owners would have done what so many private companies have done over the past few decades – they would have divested themselves from these communities because they did not offer the highest returns. While co-ops are also focused on being market leaders in urban Canada, they do believe strongly that there is tremendous opportunity locked up in the various regions and in mid-to-small-size communities, including rural Canada.

Co-ops and mutuals are just like their competitors. They have to deploy capital effectively and in a manner that supports stable growth and success. It's easy to seek short term efficiencies in existing businesses, and some people have convinced themselves that this is the most advantageous thing to do. But if we think about creating and driving innovation and job creation over the long term, efficiency alone isn't going to get you there. You have to intentionally invest in people and in making them productive.

People are also the source of ideas that drive innovation. In turn, such innovation drives long-term growth. Long-term growth is what allows for the continued investment in people and communities over time, forming a sustainable economic cycle.

It is people – members – who will expedite the co-op and mutual sector growth and innovation agenda we have described. Member based businesses offer a key value proposition for community economic development. These businesses are anchored in communities through their membership and so they have a clear understanding of the needs, values and priorities that will make them successful.

In conclusion, investment that seeks long term sustainable growth through innovation takes courage. The co-op and mutual sector does not view innovation as simply modernization for efficiencies that creates a quickest, highest return on capital. We believe that is short sighted and that long-term economic success in Canada requires investment in people and communities that offer durable, sustainable economic benefits.

Key Recommendations:

1. CMC requests that the Government of Canada support co-operative development by working with co-operatives and mutuals to design and implement a Canadian co-operative development strategy.
2. CMC requests that the Government of Canada demonstrate its support towards co-operative development by making a significant investment in the Canadian Co-operative Investment Fund (CCIF).
3. CMC request that the government consider regulating the residual value of a property and casualty mutual insurer as indivisible and as owned by all policyholders and not allow a single class of 'mutualist' policyholders. Upon the demutualization of a property and casualty insurance mutual, the surplus of that mutual should be retained for the long term benefit of the mutual sector or be transferred to charitable organizations.

ⁱ *Co-op Survival Rates in Alberta* ; Richard Stringham, Alberta Community and Co-operative Association, Celia Lee, BC-Alberta Social Economy Research Alliance August 2011. *Co-op Survival Rates in British Columbia* Carol Murray British Columbia Co-operative Association June 2011. *Taux de survie des coopératives au Québec* Édition 2008.

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