

Why Do Big Cooperatives Sometimes Fail?

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I recently saw an article by Peter Couchman of the UK and Murray Fulton of Canada examining the common factors in the collapse of some large cooperatives. Those included the Saskatchewan Wheat Pool, retail cooperatives in Germany, France and Canada, a banking cooperative in Austria and the near collapse of Cooperative Group in the U.K. I am always a little skeptical of business failure research because the identification of commonalities across very different firms is always subjective. It also seems to me that different size firms fail for different reasons. Very small and new firms fail because of inadequate financing or a failure to identify a market. Mid-size firms fail because their customers and markets evolve and they fail to keep up. Very larger firms tend to fail because the leadership becomes over aggressive. Those are obviously generalizations.

The research identified five factors in large cooperative failures and discussed them in somewhat of reverse chronological order. The final cause was some roll of the dice often involving a merger, acquisition or restructuring. The event that takes down a larger cooperative is generally not the cause. Previous actions made in vulnerable and a last bold move by the leadership turned unfavorable and took them down. The fourth factor was overconfidence. The leaders believed that their assessment was better than their peers and/or they were overconfident in their ability to turn things around. They leaders often insulated themselves from dissenting opinions.

The third factor was lack of board oversight. The lack of alignment and teamwork between the CEO and board might be a better characterization. In any failure there is always the question “where was the board”? The reality is that the board has to have the skills, experience, education and understanding of strategy to provide constructive oversight of the CEO. Success requires teamwork, not just oversight.

The second factor was the wrong people on the board and management team. Board members who do not understand their roles or the cooperative business model are ineffective in positioning the cooperative to meet member needs. As the authors noted, the solution is complex requiring a broader pool of board candidates, a more rigorous election process, greater access and involvement in cooperative education and stronger support from the membership once elected. Not to put in a plug, but I’ll be leading a panel on those topics at the upcoming CEO/Board Retreat. The placement of managers that didn’t understand cooperative identity also fell into the “wrong people on the bus” category.

The final cause of large cooperative collapse was a failure to see and understand the cooperative business model as a unique source of strength, rather than a disadvantage. I’ll discuss that cause, and the early warning signs of cooperative failure in my next newsletter.