



# Making Ownership Real

The conundrum for the  
cooperative business designer

*Is it Mission: Impossible for a  
credit union business leader?*

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Three approaches to prompt discussion  
and bring out the planner in you.

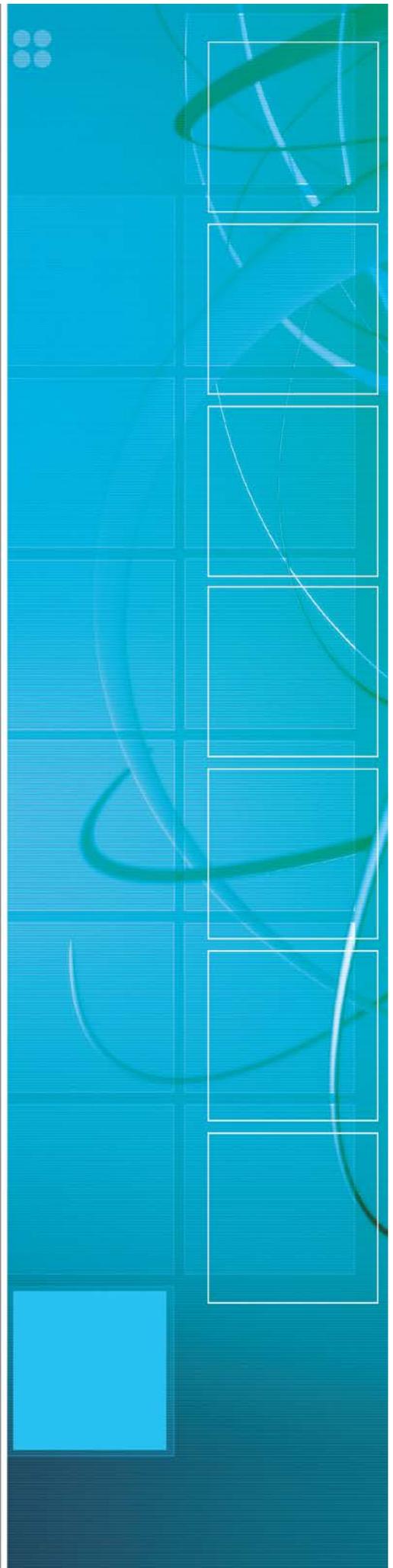
Our goal: To inspire competitive  
business designers to select  
**cooperative designs** as the charter  
for competitive advantage...

...and just maybe, to inspire an everyday  
citizen to own a credit union.

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**CU<sup>ANSWERS</sup>**  
A CREDIT UNION SERVICE ORGANIZATION

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## A Message From Randy Karnes, CEO, CU\*Answers

When we selected “Making Ownership Real” as a theme for our 2013 Leadership Conference, we saw it as the natural next step of our 2012 initiative to build a Cooperative Score index. At the very heart of a healthy Cooperative Score is a co-op with an active ownership base, ensuring the cooperative continues to capture the spirit of its customers as owners.

Those two words—customer and owner—go hand in hand and should be inseparable. Credit unions use the word “member” to bond the two concepts. But it’s unclear whether today’s consumers understand that “membership” means they have both the benefits and the responsibility of ownership.

I thought it would be easy to make it apparent to every customer that they are an owner. It is our #1 marketing directive. But look around. It’s pretty easy to market a great financial institution with great products and services, but you rarely see much money being spent on marketing ownership as a benefit. So I turned to some communications experts who’ve long been pitching the message that credit unions are valuable and necessary in our economic system.

### Our Featured Contributors

**Brooke C. Stoddard** is an accomplished author, who partnered for many years with Callahan & Associates to communicate the thoughts of Chip Filson, Ed Callahan, and Bucky Sebastian. **Chip Filson** is an industry icon, well known for his view on all things credit union. I thought it would be simple for the three of us to whip out an article that would make everyone see the real value in ownership for cooperative customer-owners.

Turns out it wasn’t that simple. Here are three of our attempts to get the idea across. The first two are a collaboration between Brooke, Chip, and me, which take a very traditional credit union-value-proposition approach. The third grew out of my frustration with the traditional approach, and was written from the perspective of a non-credit union cooperative business designer wanting to inspire every business person to consider a cooperative as a prospective path to competitive success.

A new narrative seems to be needed, but not a single one. We still need to appeal to people who see the social reasons for cooperatives like credit unions, the community reasons, and the fair-play reasons. But we also need a compelling story for people who want to hear that investing their careers, their hopes, and their communities in cooperatives like credit unions are doing so based on good, solid business thinking. They should believe they have every chance for a fulfilling career and successful endeavor.

### Add Your Voice

Three approaches aren’t enough, either. And it might be that none of these will make you sit up and take notice. So CU\*Answers is putting a \$1,000 bounty on the project.

Write an approach to the “Making Ownership Real” conundrum that could be used by all cooperative business designers to make ownership real and inspire entrepreneurs in every community to step up and lead. Post an entry on <http://score.cuanswers.com/ownership> before May 1, 2014. The winning entry will be selected by a panel of CUSO and credit union leaders and announced during the 2014 Leadership Conference in June. See complete entry rules on the website.

#### Contents

Cooperatives Level the Playing Field for the Disadvantaged .....	3
Cooperatives Do It Right, for the Right Reasons .....	6
Cooperatives Make Good Business Sense, for Entrepreneurs and for Consumers.....	9
So how do we sell the power of ownership? .....	11



## Cooperatives Level the Playing Field for the Disadvantaged

Author: Brooke C. Stoddard, March 2013

Cooperatives are born from adversity. And they continue to exist so long as the adversity exists. Or more accurately, they exist so long as the adversity exists and there are members of the cooperative who understand the cooperative's mission and work to keep it going.

Cooperatives are meant to solve a problem. They are formed by persons affected by a problem and who are willing to work at relieving that problem for both themselves and like-minded persons. Cooperatives are successful if they both relieve the problem and grow as more people affected by that problem see at least partial relief in joining.

Ironically, the more successful a cooperative is, the smaller the original problem seems. In addition, the more successful a cooperative is, the more members it attracts and the more "impersonal" it becomes. Members forget the original adversity and they feel that others are guiding the cooperative well enough so that their own input is unneeded.

Today cooperatives struggle with a two-fold mission: produce products and services for members that the cooperative members want but also instill in members enough of a sense of ownership so that the cooperative can exist in the future as it has in the past and the present. The first relieves problems for people; the second asks of them some of their time and their creative energy, and it is this second task that is often the hardest.

### Advantages of the Cooperative Structure

Cooperatives were born from adversity. They are meant to solve the problem of the adversity. But the better they are at solving it, the more the cooperative members lose sight of it and the less spirited they are in sustaining and promoting the cooperative. This does not mean, however, that the original adversity has disappeared, or even diminished. If the cooperative disappeared, the former members would have just as much problem as the persons who formed the cooperative to begin with.

In the case of credit unions, the adversity was lack of access to reasonably priced credit. With the rise of the industrial age, both small farmers and persons who left farmland for factories were ignored by large credit-granting institutions; they often could not find credit at all or could find it only within the clutches of loan sharks whose bargain for credit was devastatingly high interest rates.

Persons oppressed by this situation understood others like themselves were oppressed in kind. They decided to work in common, pool their own savings, and lend to members from the pool of savings as individual member needs arose and fell. So long as the lending was prudent, so long as the borrowers were diligent in repaying their loans, and so long as the depositors were paid acceptable interest on the money they had contributed to the credit unions, the cooperatives that the people in common had started helped to solve a common problem and continued to exist year after year.

All members understood the problem the cooperative was meant to lessen, and all members came to the credit union to hold that problem at bay. Everyone understood that it was the act of cooperating, of working together in a common cause that was lessening or relieving the problem.

The situation was something like that of the Pilgrims who ventured to the New World in 1620. They understood that their tiny settlement had the North Atlantic on one side and a hostile wilderness on the other, as well as no prospect of reasonable help from the civilization they had left behind. They had to rely on one another; they had to govern themselves. They drew up what is called the Mayflower Compact, which called upon each of them to help the others within a hostile environment and to establish a form of government – not like the one they had left behind where the governing was left to others – but one in which they all took responsibility. They understood their settlement would survive only if each person worked as a responsible participant.



Only with this kind of structure would the settlement improve with time as well as improve the condition of each person.

This is what cooperatives do. They work at relieving a common problem and at the same time promoting the condition of each participant. They are collective bodies working for the individual parts. And each individual part understands that the work it does is part of the collective work, and that without this collective work of the individuals the collective body would dissolve.

A great work of history is entitled *The Decline and Fall of the Roman Empire*. Its author, Edward Gibbon, examines the complex reasons for the empire's demise. One factor he points out is that the citizens surrendered their responsibilities, their participation in governing, to an emperor. Having done this, over time they lost the capacity to make decisions and govern for the benefit of everyone in their community. Having put their trust in one person, they lost the ability to rule themselves. Decline followed.

The possibility of such a course is no less true of any cooperative. Cooperatives are joint enterprises by persons pushing back at a common problem. If the collective members surrender their sense of how the enterprise should move forward to a single person – or to a small committee – then over time their fate will be that of the Romans; they will lose the ability to shape their collective future. And when the collective or cooperative dissolves, their individual conditions deteriorate in kind.

### Cooperatives and Community

Credit unions are born from adversity. They are a communal response to a common problem by a group of like-minded and energized persons. Everyone in it has a purpose in common: keep the outside problem at bay.

In keeping the outside problem at bay, cooperatives generally assume the problem is going to exist for its individual members if the cooperative dissolves and also would exist in the future for any persons outside the cooperative. Thus, instinctively or even not instinctively, persons in the cooperative work to sustain the cooperative into the future. The purpose is to

assure that an organization will exist for persons unborn who likely would be facing the same problem the cooperative is organized to relieve. For a credit union, this means accumulating retained earnings – or call it net worth or capital or common wealth – that sustains the operation of the cooperative.

This common wealth is owned in common by the cooperative members. Their temptation is to dissolve the cooperative and divide the common wealth among themselves. They have every right to do so. But they don't. The reason is that if they did, the cooperative would cease to exist and the former members would face the problem they or their forebears formed the cooperative to combat. Moreover, they would be dissolving an effective entity that would exist in the future. Instead, cooperatives sustain or even grow their common wealth so that the cooperatives can exist for future members, even future generations.

In a sense the common wealth is a gift from the present members to themselves for the present and also a gift to future members.

Cooperatives have never been clubs. They are not interested in keeping persons out, or in withdrawing themselves from those around them. Rather they are welcoming of anyone who wants to join who confronts the same problem the cooperative confronts and is willing to help. In this respect, the “community” of a cooperative, and especially of a credit union, is not just the community of members; it is also the community in which the cooperative operates. That community can be a neighborhood, a town, a city, a county, or a state. Cooperatives in general and credit unions in particular, having been organized by people in the spirit of helping, feel they can also help this larger sense of community.

Again, the common wealth is the kernel that enables the effort. The common wealth sustains the operation of the cooperative and the cooperative resists the problem that chafed it into existence. Accordingly, the larger community benefits because the problem is suppressed for many members of the larger community. Those persons, being benefitted by the cooperative, in turn enable a stronger, happier community. Even those who choose to remain outside the

cooperative thus are uplifted by the existence of the cooperative in their community.

### Finding and Fostering Owners

Any cooperative needs members who use its services. Without offering these services to persons who use them, the cooperative will dissolve. Accordingly, cooperatives concentrate on delivering services to persons who want them. Moreover, cooperatives generally reach out to persons to join so that these new members also can benefit by the solutions that the cooperative offers. The cooperative understands this precept: serve or go out of business.

But the cooperative must also uncover within its membership and develop a spirit that keeps moving the cooperative robustly into the future. Most people join the cooperative to solve a personal problem, specifically join a credit union to obtain the best financial products and services at a good price while avoiding institutions that deliver poorer product at higher prices. Such self-interest is understandable, acceptable, and a principal reason for the existence of the credit union. Many credit union members will be too busy, too hard-pressed, or too disinterested to go beyond this relationship. In addition, the concept of mutual ownership among thousands of members a person has never met is an abstraction. And ownership is given so freely and readily, it may not impress members with its value.

Or some may recognize the larger advantage of the cooperative – lifting as a whole the membership and lifting as a whole the community – but cannot make active effort to promote it. As in many human affairs, a few take up the burden for the many. But the few need not always be the same few; members pick up and put down the burden and in the putting down know it will be

picked up by others. And new generations enter to carry on the work.

The point is that people have to understand the ownership and stewardship function of the cooperative and work to keep it vibrant.

At the center of every cooperative is a little heart that pumps its principal out among its members and keeps the cooperative alive. The principal is cooperation in a common goal of relieving a problem, thus helping those who join, and by extension helping the greater community. The cooperative has to help those who join; this is its reason for being. But it also has to perpetuate itself into the future for other persons who will need its products and services. This kindling within the membership of a spirit of sustaining that heart can be the harder work. But it must be done. It must be done to keep the cooperative alive and moving into the future.

#### Editorial Comment

This article takes a classic approach to making the case that the value of credit unions and cooperatives comes from solving inequalities and creating options for consumers that the marketplace has not adequately addressed.

Unfortunately, it relies on a perception that the adversity is still present and a current priority for today's marketplace. It does appeal to those who believe in tradition and that the cooperative deserves a place in today's society based on its good works and intentions. But it says little about the economic value of a cooperative in competing.

We don't want owners only to owe tribute to our tradition; we want them to be inspired by the potential of our future. We don't discount those who believe in tradition, of course, but traditions fade over time, and so does their message.

How much of your marketing budget dedicated to making ownership real in the minds of consumers is based on motivating with a traditional fair-play champion approach?

## Cooperatives Do It Right, for the Right Reasons

Author: Brooke C. Stoddard, March 2013

What is the best way to solve a problem?

A common way is to congregate a few interested persons, who then assemble the means capable of supplying a product or service, followed by offering the product or service to the marketplace. In return the persons divide the fruits of their offerings according to their shares of the means. There is no necessary correlation between persons offering in the marketplace and persons consuming in the marketplace.

But this is not the only way to solve a business or marketplace problem. To begin, problems do not reveal themselves to an elite; instead problems are generally in plain view: for example, food prices are consuming a greater portion of families' budgets, credit lending institutions charge too much, or fresh farm produce is not getting to market. These are felt by all.

A reasonable solution is that persons affected by the problem affiliate in a common effort to relieve the problem on themselves. Being the ones affected, they now want to be the developers of the solution; they want the rewards of the relief as well as ownership of the solution.

Such persons have made a cooperative. Examples are legion, but to note a few: Group Health Cooperative (of Washington State), outfitting retailer REI, Navy Federal Credit Union, and any number of electrical cooperatives. The consumers of the product or service are the owners of the means of offering the product or service.

### Is this any way to run a business?

The structure and the perspective of a cooperative business are categorically different from those of a traditional stockholder for-profit business. A cooperative business is a different means at solving a problem, and arguably a better means. A stockholder company has no place for its customers except as antagonists in financial transactions: the company makes and the customers pay. Moreover, the individual company owners control the capital of the company in proportion to their monetary contribution: Those

who have put the most money in receive the most number of controlling votes.

In a cooperative, the customers are the owners. The customers not only pay, they also receive. They are not antagonists in financial transactions; they are the same persons. Moreover, these customer/owners democratically control the capital of the cooperative. They reason together for solutions or elect representatives to do so for them.

Their perspective is that their form of organization and governance gives them a competitive advantage in the marketplace. Does it really?

The success of cooperatives such as REI, Group Health, Navy Federal Credit Union, electric cooperatives and many more makes testimony that in many instances the answer is yes. But why?

### Need

No one understands a problem better than those who are affected. And when a problem is as widespread as a community, many persons understand they have a problem in common. The logical approach to a solution, therefore, is to engage as many persons as possible affected by the problem. They have the motivation. They are the ones most likely to envision workable and efficient solutions. They are more likely to have the perspective that the more persons involved in the effort the better, because the odds are greater that improved solutions will be envisioned. The driving force of the collected people is relief for persons feeling the need; without it there would be no need for organizing.

Compare this to an isolated group that associates to meet a need. They may feel the need personally but their principal aim is to garner financial reward for offering a solution. They identify a need and they offer a means of relief, but they do so for themselves. This gives rise to an us-them situation. They see two communities, a community of customers and a community of owners, and the overlap is small. The owners need not be people



feeling the need, nor do they need to sympathize with persons who do. The financial reward the owners reap they can remove from the community altogether. All these together turn organizers of a for-profit firm away from embracing the community of their customers.

## Organization

A cooperative organizes to deliver solutions to persons who join in the organizing. Any persons in need of the offered solution are welcome. Thus cooperatives are expansive and inclusive; the more persons willing to participate, the more persons are welcome. A cooperative looks outward as broadly as the community of persons in need is broad. Moreover, a cooperative is autonomous and independent. It is responsible to no one other than its own members. There is no threat that it can be controlled by non-community interests; it works for the interest of the community of persons who join.

In a cooperative, if income exceeds expenses, the earnings are put to use for the collective owners, that is, the members. The earnings in excess of present need might be distributed among the member/owners in proportion to the activity of each, as in the more groceries you bought from the cooperative in the last year, the greater the rebate to you at year's end. Or the earnings in excess of present need can be donated. If earnings are donated, they are normally given to organizations voted by the membership as worthy and generally go to organizations working for the benefit of the community.

A for-profit enterprise lacks this sort of community orientation. It is organized for the financial benefit of investors, who may or may not be among the community of customers. Earnings in excess of present need are divided among owners corresponding to their level of financial investment. None need be returned to customers. And all of it can be removed entirely from the community.

## Market Orientation

A cooperative is automatically immersed in its market. It is made up of the persons who are using its services, persons who make up the market. Accordingly, a cooperative is always

adjusting, always hearing from the customer side of its customer/owner population about evolving needs and always hearing from the owner side of its customer/owner population how to evolve with the market to make a stronger enterprise. Cooperatives are the ultimate market laboratories. Having made a commitment to a community of users, cooperatives have automatically committed to evolving in such a manner as to benefit those users.

This perspective has two important progeny. First is that cooperatives without hesitation look favorably on working with other cooperatives. They are willing to share ideas, methods, and resources to help the communities of other cooperatives. This leveraging of their perspective and organizing principle comes back from other cooperatives to help them in turn.

Second is that cooperatives, being organized for the benefit of their member/owners, look favorably on uplifting their member/owners in ways tangent to providing products and services. For example, a financial services cooperative might offer financial literacy courses, which would help to further the cooperative's mission of uplifting the financial lives of its member/owners. Or a food cooperative might offer nutrition courses, which would help to further the cooperative's mission of improving the dietary needs of its member/owners as well as lower their costs for food. Education in any form works to uplift the community, so cooperatives enthusiastically engage in education.

For-profit firms lack these incentives. Sharing ideas with others in the market gives away comparative advantages. Offering education to customers raises operating expenses with little or no short- or long-term benefit.

## Control

The defining difference in cooperative control is customer/member ownership: cooperatives are owned by persons who join. Those persons democratically decide policy and control the capital of the organization. They make decisions and set strategy. Cooperatives are a community of customer/owners. The customer/owners make any number of small and large strategic and management corrections so that the cooperative

stays on mission, that of uplifting the customer/owners.

A for-profit firm, no matter the size of its assets or the breadth of its customer base, can be controlled by a small minority of owners, including investment companies that know little or nothing of the business and look to it only for its revenue stream or potential capital gains.

### Core Quality

Accordingly, a cooperative rests on an exceptionally solid foundation: customers who are also owners. A cooperative can never veer off-mission; its customer/owners will always nudge it back on course. They know what they want and they control the means of getting it.

But to say that cooperatives are mere effective and efficient purveyors of products or services does not do them entire justice. A core quality is the fact that the member/owners have taken control of their own lives, that they own a solution, and that they are building a community.

These facts make cooperatives exceptionally powerful entities, not just for delivering efficiently

in the marketplace but also for building and uplifting communities.

### Editorial Comment

This article takes a more academic approach to problem solving, and the cooperative design as a solution. Its value to the insider is obvious. Insiders want to believe they have an approach that sets them apart. It allows people to rally around the idea, “We’re doing it right, and for the right reasons.”

The issue for marketing along these lines to outsiders is whether you can get the everyday consumer even to think about why or how you do something. They just want to know what you do and how it relates to their problem. You often hear back from the marketplace, “I just want to use it. Why would I care about *owning* it?”

How much of your marketing budget dedicated to making ownership real in the minds of consumers is based on convincing them that you have the right formula for success? How do you help them connect the dots between your stellar formula and their perception that ownership is valuable to them?





## Cooperatives Make Good Business Sense, for Entrepreneurs and for Consumers

Author: Randy Karnes, CEO, CU\*Answers, April 2013

In selling people on why they should own a cooperative, one approach would be to appeal to the entrepreneurial spirit in every consumer. Feed the consumer's confidence in their ability to help build a better mousetrap. Sell the idea that a good business person should see the advantage in partnering with consumers as owners. Then reference that element as the secret ingredient for everyone's success—both internal and external community stakeholders.

I believe that cooperatives can simply be started to build a competitive business, a solution to the classic problem: "I think we can build and exchange value with the marketplace. How should we organize? How can we gain competitive advantages given our resources and opportunities?"

The cooperative model offers a design that solves that problem in a unique way. It starts with the concept that customers and owners are one and the same. In short, this model approaches business design like this: **We need it, we will create, we will use it, and we will own it.** The approach immediately creates a win-win mentality for owners and customers alike, and guarantees it as the driver of every activity the business undertakes.

### We need it

Customer-owners create the best resource to truly define the need. Their perspective becomes the core engine of development and innovation. This removes the element of speculation based on the assumption that they will lead the business to develop what the community will actually use.

### We will create it

Customer-owners give the business the will to work on solutions until the business captures the essence of the need, and the solutions separate their value from that of their competitors. *They'll stick with it until they get it right.*

### We will use it

Customer-owners make the commitment to evolve, creating the ultimate marketplace laboratory. When harnessed, their perspective is the difference between a one-trick pony and generations of evolution and interaction with the community of customers and owners. *They'll keep using it until the cooperative gets it right.*

### We will own it

Customer-owners demand a two-sided value: They take on the responsibility of acting as stewards and fosterers of the mission, and they expect to be the benefactors of owning a business and receive the rewards from the effort.

### Make it real for the consumer

Therefore a business person, ice cold, focused strictly on finding an edge, can select a cooperative template to win. He can partner by design with customers to create an ecosystem that will yield success from a purely business sense. This approach appeals to the business person in every consumer. It rallies their best intentions and expectations.

But to truly appeal to the business person in every consumer, you must complete the circle, explaining how they can reap the rewards as an owner in partnership with the business. The cooperative model allows for that with various strategies, all of which are related to extending tactics that prove the power of ownership.

- Consumers get to vote as owners with an equal voice. *They have the power.*
- Consumers get to participate in the governance of the organization, to make sure it stays on mission. *They have the power.*
- Consumers are at the table when the returns from the business are divided among the owners. *They have the power.*

This is where it gets tricky for some business designers. It starts to tilt a little bit too much





towards the consumer. Designers start to worry about sharing this power with everyday consumers, and might not want so many partners. But that vulnerability is the model's greatest strength. It acts as a compass to maintain the integrity of the model. You wouldn't take unfair advantage of the consumer, since the consumer is you.

#### **Editorial Comment**

This article attempts to appeal to today's environment of self-starters and grassroots activists who want to believe there are better ways to build businesses, and are doing so throughout the networked world. It is intended to appeal to the "little guy" business person in all of us. It offers a solution to people who want to participate in local solutions, in peer solutions, and in solutions that empower the consumer. It speaks to the desire in everyone to win, but to do so in a way that doesn't mean someone else has to lose. It has the potential to make people believe that cooperatives are good business, and good business is good for our economy and for our communities.

It allows for a case to be made that the tax advantage granted to credit unions is not for the organization, but more for the everyday consumers and citizens to who decide to be entrepreneurial and own a cooperative. The tax advantage inspires everyone to take up the call to build community solutions.

How much of your marketing budget dedicated to making ownership real in the minds of consumers is based on appealing to the business person in the everyday consumer?



## So how do we sell the power of ownership?

Why spend so much time on this idea? For our network, it is simple. We are concerned that people do not see credit unions for what they *are*, but rather for what they *do*. The minute no one wants to own a cooperative any longer, it ceases to be a cooperative. The minute no one wants to be an active *owner* in a credit union, the credit union ceases to be a credit union.

A credit union can decide to stop offering a particular product and still be a credit union. So it's a mystery why such a disproportionate amount of a marketing budget goes toward products and services, rather than the one sustaining concept for a credit union's future. A credit union needs active ownership to survive.

The reason could be as simple as this: selling the power of ownership is tough. And it is.

Thankfully, tough things are what collaboration is all about: working on ideas that are potentially too big for any one organization to solve. The point of this document is to inspire us all to keep working on the problem and not give up. We need to find a new narrative, assemble a long list of approaches, and work on very tactical projects that will resonate with the everyday consumer and help maintain an active ownership base for credit unions.

This exercise is about reminding people of our past. It's also about taking pride in our traditions. But that's not enough. We need to find a new pitch. We hope you will help.



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