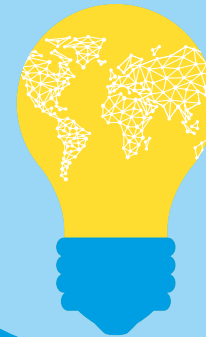


INNOVATION Priorities and Practices in Cooperatives

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This study has been conducted by the Alphonse and Dorimène Desjardins International Institute for Cooperatives. As part of the Institute's expertise and knowledge transfer activities, this research deals with the priorities and practices that cooperatives place upon innovation. Based on an online survey sent to cooperatives around the world and on interviews conducted with financial cooperatives and mutuals, the study has two objectives: firstly, to rank the innovation priorities within cooperatives in general and compare them to financial cooperatives and non-cooperatives; secondly, to map the key innovative measures undertaken by financial cooperatives and mutuals.

Key innovation priorities expressed by cooperatives

Nearly 70 percent out of almost 236 cooperatives that responded to the survey - mostly from North and South America and Europe - place innovation among their top three priorities. Over the next three to five years, cooperatives will prioritize the expansion of new services (91%), the development of capacity in innovation (84%), technology platforms (83%), and speed of adopting new technologies (81%). These cooperatives pursue innovation in order to take advantage of new opportunities (85%), as well as to counter threats (81%). However, they face a number of challenges in terms of generating ideas, as well as selecting and funding innovation projects.

Because financial cooperatives represented 41 percent of survey respondents, we decided to compare the financial cooperatives with cooperatives in general. This showed that financial cooperatives have a greater number of priorities and that they tend to focus on additional aspects of innovation, such as distribution channels (93%), mobile applications (90%), and speed of adopting new technologies (90%). These results

confirm the need to rethink many aspects of the business models used by financial cooperatives.

Finally, we compared cooperatives with non-cooperatives, referencing a 2015 Boston Consulting Group study on innovation in business. This comparison showed that the proportion of cooperatives placing innovation amongst their top three priorities was slightly lower than in non-cooperatives - 69 percent versus 79 percent. Moreover, cooperatives placed additional importance on specific areas of innovation compared with non-cooperatives, due to their cooperative model and social role, such as: renewing member relationships (89%), supporting the social economy (89%), and improving sustainable development (87%). With respect to how innovation is managed, 44 percent of cooperatives relied on decentralized or coordinated organizations, compared with 33 percent of non-cooperatives.

Innovation practices of financial cooperatives and mutuals

In addition to the survey results, we conducted case studies of 12 financial cooperatives and mutuals in the Americas and Europe. We chose to conduct interviews within this sector for two reasons: firstly, as indicated previously, financial cooperatives and mutuals represents 41 percent of the survey sample, confirming its importance within the cooperative movement; secondly, the need for innovation is especially timely in this sector, due to current technological shifts and the need to review business models following the 2007 financial crisis.

The innovative practices documented were categorized using two criteria: 1) the targeted outcome of the innovation and 2) the organizational models supporting the innovation.

From these, four logics of innovation emerged:

- **Reinvention:** Launching of innovations aimed at transforming the business model and which are based on internal organizational structures.
- **Extension:** Development of products and services relating to the existing business model. This category includes initiatives aimed at developing the business model and is based on internal organizational structures.
- **Seeding:** Investment in external structures to support the development of new initiatives. This group of practices includes innovations that target the development of the business model and are based on external organizational structures. With time, some external structures may be gradually integrated, especially through acquisition, due to their growing importance.
- **Open Innovation:** Participation in the development of technological innovations likely to have a significant impact on the existing business model. This category encompasses innovation aimed at transforming the business model and is based on external organizational structures.

Overview of main priorities and practices in innovation

The importance of innovation from both macroeconomic and microeconomic standpoints cannot be overstated. Our results confirm that innovation is a priority for all businesses, cooperatives included. However, innovation is a greater priority and takes on a more diverse approach for cooperatives. Moreover, sector-based particularities impose distinct challenges, which is the case for the financial sector. Indeed, the survey shows that financial cooperatives and mutuals would have more pressing priorities and challenges than cooperatives as a whole.

With this study, we were able to categorize innovation into four distinct logics of practice. The most common are **Reinvention initiatives** that take into account technological, socioeconomic and demographic trends to transform the business model. Next, **Seeding** practices have increased in recent years, and cooperatives are playing a proactive role in the emergence of new business models and in supporting local and cooperative entrepreneurship. **Extension** innovations, some of which have been in place for many years, are activities aimed at broadening the scope of action and guiding members towards more social issues or towards value-added services. Finally, **Open Innovation** illustrates the participation of cooperatives in local initiatives and their experimentation with less mature technologies that have the potential to transform business models.

A number of organizational issues are associated with these innovation categories:

- “Think local, act global”: innovations frequently emerge from local initiatives, which correspond to the territorial roots of financial cooperatives and mutuals. The challenge for some cooperatives is to identify innovations that are broadly relevant and to systematically roll them out. Moreover, certain innovations may need to be adapted to the specific requirements of each territory, as they are rolled out in a “glocalization” process.
- Innovation that reaches out to members: some of the groups interviewed look for innovative approaches regarding the democratic aspects of their cooperatives, and their capacity to renew the involvement of members.
- Reconciling agility, efficiency, and proximity: cooperative groups have frequently consolidated their information systems within shared entities. Since innovation requires a high degree of agility and proximity to users, innovation departments are often faced with the challenge of mobilization between regional entities, operations departments, and shared IT departments.

These topics pave the way for future studies on innovation within cooperatives.

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The Alphonse and Dorimène Desjardins International Institute for Cooperatives intends to understand and communicate the place and role of cooperatives in economies and societies throughout the world and, in doing so, to shed more light on management practices, policies and actions to be taken in order to preserve cooperatives' identity and further their development.