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Business model of a community-based cooperative corporation in Japan:  
A case study of the management system of the Green Fund, Akita

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# Business model of a community-based cooperative corporation in Japan:

## A case study of the management system of the Green Fund, Akita

### Introduction:

Japanese municipalities, administrators, and residents are seeking management strategies that promote regional revitalization policies, while incorporating the philosophy of ‘Sustainable Development Goals’ (SDGs) <sup>1</sup>. Sustainability of both the local area and the planet as a whole is a priority. In Japan, there are some examples of business practices based on the ideas, values, and principles of cooperatives that share the concept of SDGs. The Yumekaze Project of Green Fund Akita (GFA) in Nikaho-city, Akita Prefecture is one example. GFA is a Corporation engaged in wind power generation, jointly established by four co-operatives in the metropolitan area, as well as Hokkaido Green Fund (HGF)<sup>2</sup>, Community Wind Power Co., Ltd (CWP) Co., Ltd. GFA utilizes the management system that integrates four cooperatives, an non-profit organization (NPO), and a corporation. We refer to such an organization, that collaborates with other entities to carry out community revitalization projects, as a ‘Community-based Cooperative Corporation’ (CBCC).

We design an organizational model that can accomplish regional activation projects while attaining SDGs by analyzing case studies of GFA. In Section 1, we describe the current circumstances surrounding existing Japanese cooperatives from the viewpoint of the domestic legal system and international theoretical context. In Section 2, we discuss the Yumekaze project, which overcomes institutional issues and is an extension of the GFA wind power generation project. This project maintains the link to the theological context as described later. In Section 3, we analyze the success factors of the regional activation project. Based on the results, we derive the management model of CBCC, and present the characteristics and possibilities of CBCC. Finally, we present further arguments regarding CBCC led regional revitalization.

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<sup>1</sup> Sustainable Development Goals (SDGs) are based on the Universal Declaration of Human Rights, the international convention on human rights, the millennium declaration and legal theory of 2005, documents, and other agreements such as the declaration on rights to development. In addition, SDGs reflect the outcomes of major international conferences and summits such as the World Social Development Summit, International Population, and Development Conference (ICPD) Action Plan, Beijing Action Platform (4th World Conference on Women), United Nations Sustainable Development Conference Rio + 20), The 4th Post-Developing Countries (LDC) Conference, 2nd Inland Developing Countries (LLDCs) Conference, and 3rd World Conference on Disaster Reduction.

The Millennium Development Goals (MDGs) ~ 2015 established by the UN General Assembly in 2000 included eight primary targets’ 21 individual targets, and 60 indicators to solve poverty problems among others, in developing countries.

Based on these circumstances, an agenda for post-2015 was formulated and adopted, that included the problems faced by people and regions excluded from the MDGs and those in developed countries. While experts formulated the MDGs, the SDGs and the 2030 Agenda have included participation by private sector enterprises, NGOs’ and citizens in government- level negotiations since 2013.

<sup>2</sup> The Hokkaido Green Fund is an NPO with 1042 members (2015) located in Sapporo City. In the process of implementing the civic joint power generation project, it established Community Wind Power Co., Ltd. and Japan Green Fund Co., Ltd., working with both companies to implement a renewable energy project. In addition to supporting the efforts of various citizen power generation projects, it conducts public awareness activities related to energy conservation and environmental education (2017 Kato).

## 1 Background and research topics– Institutional issues surrounding cooperatives

There are three issues regarding the establishment of Japanese cooperatives. First, cooperatives such as agricultural and labor cooperatives that support regional industries are isolated from other cooperatives, NPOs, corporations, or municipalities. These cooperatives do not combine with organizations such as neighborhood and self-governing associations (Harada 2010: 154-155). Second, industry-oriented cooperatives are established under industry-specific laws subject to the approval of competent authorities, which makes it challenging to create cooperative relationships beyond individual sectors. Under cooperative law regulations that are parallel across industries, cooperatives cannot be established in fields not included in individual law, small-scale cooperatives cannot be established, and it is difficult to develop collaboration among cooperatives; there is no higher legislation to overcome this problem. Third, the international trends of cooperatives and domestic industrial policy are divergent. In recent years, cooperatives have been drawing attention as one of the industrial creation players that combine the functions of utilizing public sector governance and the market mechanism of the economic sector. Since *the International Year of Cooperatives* (2012) set by the United Nations, the General Assembly of the United Nations, the International Labour Organization (ILO), and the International Co-operative Alliance (ICA)<sup>3</sup>, these organisations have supported living-related service projects for socially vulnerable groups, childcare, education, and environment improvement projects to be conducted by cooperatives. The General Assembly of the United Nations and the ILO have suggested governments should promote legislation and measures to support such initiatives. However, the Japanese government has not responded to this request.

For Japanese cooperatives to become powerful actors responsible for regional revitalization projects<sup>4</sup>, they need to implement industrial promotion as far as possible within individual cooperative laws. Furthermore, they must resolve the following challenges: (1) difficulties in cooperating with cooperatives and other organizations, (2) being separated by individual laws and not being able to establish various cooperatives, and (3) experiencing circumstances that deviate from the context of international collaboration.

### *Japanese corporations and the international context*

Since the global financial crisis in 2008, cooperatives have been drawing attention as a form of management that may support local communities. Cooperatives focus on the long-term interests of the members as a whole and are human resource based, which is considered useful for the creation and stabilization of employment. In addition, *the International Year of Cooperatives* (2012) was adopted at the UN General Assembly with the view that cooperatives could complement the vulnerability of capitalism, which suggests they have the potential to be a force for new economic growth. The United Nations recommended that governments prepare legal systems to encourage the

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<sup>3</sup> The International Cooperative Alliance (ICA), an association of world cooperatives established in London in 1895, is a large nongovernmental organization (NGO). The Japan Joint Committee of Co-operatives (JJC) consists of many cooperatives, however, only 15 are affiliated with the ICA. Worldwide, there are more than 298 organizations in 103 countries, with approximately 1 billion affiliated members.

<sup>4</sup> The JJC has been working on improving the social evaluation of cooperatives since the United Nations Educational, Scientific and Cultural Organization (UNESCO) certified cooperatives as intangible cultural heritage on November 30, 2016. The 11th Intergovernmental Committee on Intangible Cultural Heritage Protection Treaty sets out the reasons for registering ‘the idea and practice of organizing cooperatives to realize common interests’ in UNESCO intangible cultural heritage as ‘common interests and values. It is an organization that can create a community through the creation of employment, from the support of the elderly to the revitalization of cities and renewable energy projects, as a solution devising a consensus on various social problems’.  
([http://all.rokin.or.jp/file/20161214\\_JJC\\_PRESSRELEASE.pdf](http://all.rokin.or.jp/file/20161214_JJC_PRESSRELEASE.pdf)).

development of cooperatives. Similarly, the International Labor Organization (ILO)<sup>5</sup> also advised governments to prepare cooperatives for their new roles. Meanwhile, cooperatives use activities to deal with challenges such as financial and economic crises, regional conflicts, diseases, lack of medical care and welfare, and youth unemployment (Nabeshima 2012). Cooperatives are enhancing community resilience to various crises. In response to recent circumstances, some countries are attempting to construct a new socially integrated economic model by revitalizing cooperatives. However, there is no legal system to determine the status of cooperatives in the aforementioned situations, and in Japan there is a lack of awareness of the international context.

### ***Setting the research question and methods***

We take Green Fund Akita (GFA) as a case study of an NPO that seeks to address the issues mentioned in the previous section.

GFA utilizes the management system of four cooperative associations, an NPO, and a corporation to contribute to regional revitalization by implementing a wind power generation project.

We use two approaches to clarify the success factors of GFA's business model and consider its characteristics and possibilities regarding a regional revitalization project. First, we contrast the business philosophy and methods of GFA with the aims and practices of cooperatives in an international context. We review these two philosophical correlations. Second, we use an interview survey<sup>6</sup> to clarify the success factors of GFA and derive the characteristics of the management system of Community-based Cooperative Corporation (CBCC), which is the key to success factors. Finally, we integrate these two approaches and estimate how a CBCC can contribute to regional revitalization.

### ***Case study***

In terms of the cooperative, as mentioned in Section 1, there are three issues: (1) it is difficult to collaborate with organizations other than cooperatives, (2) legal restrictions prevent more cooperatives being established, and (3) it is in a situation that deviates from the context of international organizations. The GFA business model connects cooperatives, NPOs, and corporations, and carries out projects in collaboration between consumers in the metropolitan area and producers and processors in rural areas in cooperation with local governments, which overcomes (1) and (2). GFA promotes projects that contain the business principles and methods of the cooperative society that is the parent organization.

## **2 Case Study - Green Fund Akita's Yumekaze Project**

We described three problems related to cooperatives in Section 1. GFA promotes regional revitalization through power generation projects, according to local needs, based on cooperative ideals and methodologies in the international context, in partnership with regional producers and

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<sup>5</sup> Since the establishment of the International Labor Organization (ILO), the historical background has been one in which cooperatives develop as organizations that support good and fair work conditions (Nabeshima 2012).

<sup>6</sup> The interview survey was conducted across four sessions between August 2015 and April 2017 by Mr. Akihiro Hanzawa, Director of Green Fund Akita and Representative Director of Sekatsu Club Energy Co., Ltd. The survey comprised written questions and semi-structured interviews at the offices of Sekatsu Club Kanagawa (August 3, 2015 and April 13, 2017), Green Fund Akita (April 11, 2016), Nikaho-city Sekatsu Club committee (April 8, 2016), and Serita Association in Nikaho-city (April 9, 2015). In addition, field research (April 8, 2016) was conducted.

processors, NPOs, and companies and local municipalities. It overcomes the aforementioned three problems by establishing a process to meet the challenges of farming and urban communities.

Therefore, in this section, we examine the characteristics of the organization. First, we discuss the business philosophy and method of GFA's parent organization: (1) the energy policy of Sekatsu Club, and (2) the concept of a 'self-sufficiency zone' of Sekatsu Club Kanagawa. Next, we describe the relationship between the Yumekaze project and the business philosophy and method. Then, we examine the features and reasons of the projects implemented by the GFA (i.e., the success factors) – related to the business philosophy and method.

## ***2-1. The business philosophy and method of a parent organization Sekatsu Club's energy policy***

Sekatsu Club, the parent organization of GFA, is one of about 600 co-ops in Japan. Members of the union are not customers who buy goods, but rather invest in the business, use the products or services, and manage the stores themselves. They distinguish products to trade from goods in regular markets. This is called consumable material, which the producer and partner develop cooperatively. The members have principles and standards and deal in domestic materials in order to increase the food self-sufficiency rate. Sekatsu Club Rengokai consists of 33 Sekatsu Clubs in 21 prefectures nationwide. With about 340,000 members. Its annual turnover is 81.6 billion yen and the member equity is 37.7 billion yen (September 2013). Within this national network, the number of people in the four co-ops (Tokyo, Kanagawa, Saitama, Chiba) in the metropolitan area is about 200,000, with an annual turnover of 57.0 billion yen and investment of 22.8 billion yen. That is, the four co-ops account for about 60% of the whole (Igarashi 2015).

Sekatsu Club has three main areas of activity. First, it creates materials necessary for daily life. Second, it raises the social functions and services necessary for daily living. Third, it enriches human relationships. The first activity involves the co-purchasing of food and energy. The second represents the workers' collective and regional welfare and the environment created by the collective. The third activity is related to consensus building on social and community improvement to participate through these activities. They also amend the policies of the national and local governments and propose necessary legal changes. This work is mainly carried out by members of the purchasing cooperatives and workers collectives (Igarashi 2015)<sup>7</sup>.

Here, we refer to the approach reflected in the three activity areas of the Sekatsu Club as 'a method of forming a community by cooperatives'. Sekatsu Club promoted its Seven Energy Principles<sup>8</sup> related to renewable energy production and green power, as stipulated in the energy policy, which has been carried out using 'the formation method of a community by cooperatives'.

### ***Self-sufficiency zone of Sekatsu Club Kanagawa: Business idea and method***

At the time of the establishment of GFA, Sekatsu Club Kanagawa became the parent organization. Its 10th Medium-Term Plan contained the basic theme of the five-year plan for 'self-sufficiency of food, welfare, environment (energy) and creation of working place'. Sekatsu

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<sup>7</sup> Sekatsu Club Kanagawa created a workers' collective as a way for members to participate in the operation of the store in 1982. As of 2017, 150 organizations in Kanagawa prefecture, including about 4,600 people, work in all 11 fields, including food, culture, information, environment, welfare, and so on.

<sup>8</sup> The Seven Energy Principles were approved as the Seikatsu Club 26th General Meeting on June 22, 2015: (1) Shift to a sustainable society based on energy conservation; (2) Construction of a society that can reduce CO<sub>2</sub> without dependency on nuclear power; (3) Contribution to the community and the power generation business; (4) Clarification of electricity prices and transmission and distribution mechanisms; (5) Cooperation with affiliated products suppliers and improvement of energy self-sufficiency rate; (6) Cooperation with renewable energy business operators, partner producers; and (7) Total management and disposition.

Club Kanagawa promoted the project to create and spread a ‘food self-sufficiency zone’ by purchasing cooperatives that plan and manage the manufacture and sale of consumables by communities of producers and consumers. It originally began when the Sekatsu Club purchased a truck of rice produced by rice farmers in Shonai, Yamagata prefecture (Hanzawa April 11, 2016).

Currently, they aim to increase the supply of joint purchases by 10% over five years in order to increase the growth and possibilities of the business. They create what they need for their lives and purchase it themselves. This philosophy led to the ‘welfare self-sufficiency zone’, which started in the community for welfare projects thought necessary for the region. The Yumekaze Project led to the ‘self-sufficiency zone of the environment (energy)’, which is consistent with general energy policy of Sekatsu Club.

The plan has three stages: reduce energy usage (Stage 1), create renewable energy (Stage 2) and choose energy to use (Stage 3). Stage 2 was realized with the development of wind and solar power generation. In 2016, Stage 3 began with joint electricity purchases by members.

They formed a supply/consume community between the rural area and metropolitan areas and created a mechanism to self-supply energy. Sekatsu Club Kanagawa termed this the ‘self-sufficiency zone of the environment (energy)’. In this system, GFA creates energy, together with community landowners and agricultural producers, which it supplies to consumers, who are mainly in the metropolitan areas.

In this section, we examined how GFA's business philosophy and method agree with the ideals of Sekatsu Club Kanagawa, its parent organization. How are these business philosophies and methods implemented in the region through the Yumekaze Project? We examine the question next.

## ***2-2. Features of GFA's Yumekaze Project***

GFA was founded by four co-operatives (Sekatsu Club Kanagawa, Tokyo, Chiba, and Saitama) an NPO called Hokkaido Green Fund (HGF), and a company called Community Wind Power Co. Ltd.<sup>9</sup> GFA decisions are made equally by the four corporations, the NPO, and the company, under strong influence of the Seikatsu philosophy. Power generation by the windmill ‘Yumekaze’ (Start 2012/Output 2000 kW) of Nikaho-city, Akita Prefecture, is a cooperative-led, wind power generation project under the joint direction of Green Fund Akita and Nikaho-city<sup>10</sup>. The representative director of GFA, Akihito Hanzawa, is also the managing director of Sekatsu Club Kanagawa. In this way, the Sekatsu Club, together with Hokkaido Green Fund, was able to enter the renewable energy business. HGF supports the construction of the windmills, and Community Wind Power Co., Ltd. is responsible for the construction and maintenance (Kato 2017).

They are positioned as the first stage of realizing the philosophy of Sekatsu Club's comprehensive energy policy. Nikaho-city and the metropolitan areas represented by the four co-operatives were connected using the cooperative formation method, and Sekatsu Club Kanagawa's vision of an energy self-sufficiency zone was actualized. With this project, consumers in the metropolitan areas were given a mechanism to select a form of energy, and in Nikaho-city, the agricultural producers and processors teamed with members of Sekatsu Club to interact and

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<sup>9</sup> Investment amount of each entity:

Sekatsu Club Tokyo 14.8%, Kanagawa 14.8%, Saitama 14.8%, Chiba 14.8%, Hokkaido Green Fund 21.8% and Community Wind Power 19.0%.

<sup>10</sup> Nikaho-city was chosen for the windmill location based on factors such as wind conditions, the supply location, the power generation/power selling route, and coordination with local governments. Then, GFA became the entity representing these projects. About 100 people gathered at the opening ceremony held in 2012. Citizens named the windmill ‘Yumekaze’, which means ‘Dream Wind’.

learn from each other in a sustainable way<sup>11</sup>. After the operation of Yumekaze, GFA and Nikaho-city established the Collaboration Promotion Council and announced the 'Joint Declaration for Creating a Sustainable Natural Energy Society through Regional Cooperation'<sup>12</sup>. The declaration outlined the development of foodstuffs<sup>13</sup> by producers in the Serita area, where the windmills are located, and the four Sekatsu Clubs, Nikaho-city, and GFA agreed to work together in a regional revitalization project encompassing windmill projects, agriculture, the processing foods industry, the manufacturing industry, and tourism<sup>14</sup>.

## **Features**

The Yumekaze Project has two features. The first is to contribute to community building in both rural and metropolitan areas. The second is the management by cooperatives and actors to realize community growth.

### **[1] Contribution to the community**

Nikaho-city plateau windmill's area is a successful location for the wind power business owing to the good wind conditions. Since the 1980s, this area has attracted the interest of wind power companies. For example, the large scale, commercial project of J-Power Co., Ltd, which originated from the Windy Hill Plan (Community Engineering Research Committee 1986). As mentioned earlier, the Yumekaze Project continues to create actions, such as farmers devising local resources and developing new products. Therefore, it differs from the large-scale centralized wind power generation business<sup>15</sup>.

First, Nikaho-city has a unique industrial structure and tradition that fuses agriculture and science. Furthermore, it is significant for the fusion of agriculture and renewable energy projects

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<sup>11</sup> Many producers and administrators of Nikaho-city could participate in the metropolitan event and the tour of welfare facilities. Yumekaze creates collaboration opportunities (April 11, 2016, Hanzawa).

<sup>12</sup> GFA decided to utilize 3% of electricity sales profit for the benefit of Nikaho-city. Nikaho-city leaders decided to use the funds to interact with the Sekatsu Clubs in the metropolitan areas. Therefore, Nikaho-city and GFA began to exchange people between the rural producers and metropolitan cooperatives. Approximately 200 people, including Nikaho-city's mayor, local residents, and Seikatsu Club members, participated in the anniversary ceremony in 2013.

<sup>13</sup> GFA planned its product development using locally sourced processed tomato products through a farming association in Serita district, where Yumekaze stands. At the time of harvesting tomatoes, Seikatsu Club members and leaders visited fields in Nikaho-city with the tour, enabling members and producers to learn from each other. The four Sekatsu Clubs established 'Yumekaze brand producing meeting' to develop new products with producers, and business operators, and cooperatives. Japanese sake, Yumekaze Daiginjo, was born as a regional brand and supplied as a consumable material.

<sup>14</sup> Hanzawa described the effect of the Yumekaze Project as follows:  
The profit obtained from the power sale revenue is the financial resources for the exchange project and the dissemination and awareness project. The promotion council prepared budget the accommodation travel expenses of the project at this cost. The amount is 3 million yen (3 million yen / 100 million = 4.7 million kilowatts × 18.7 yen) in the year with the remaining surplus 3% minus the cost from the electricity revenue. As long as the windmill is working, we could get profits regularly. So it will be stable and sustainable earnings. People who participate in Yumekaze tour every year increase, so interactions enable the meaning and methods of Yumekaze's business to spread to new people (April 11, 2016).

<sup>15</sup> Large-scale power generation projects by major enterprises based outside the area are useful for revitalizing the region. However, if the performance of the company deteriorates, the entire region is negatively affected. In addition, residents play no part in the power generation project. When NPOs and cooperatives work with residents, such risks are reduced.



that strengthen each other. Second, the neighbouring Yusa Town in Yamagata Prefecture became interested in emulating this activity. As a result, both the Sekatsu Clubs and the producers are developing natural energy and collaborating. Therefore, GFA demonstrates industrial creation that overcomes the weaknesses of the existing industrial structure and enhances the durability of the community.

At the same time, they are conducting signature activities and policy advocacy in collaboration with other organizations in Kanagawa. As a result, Kanagawa Prefecture enacted its Energy Conservation Renewable Energy Promotion Ordinance in April 2014.

In this way, GFA has conducted regional revitalization projects to connect producers and consumers in rural and metropolitan areas to enhance the durability of both communities. Sekatsu Club Kanagawa advocated policy to the municipalities based on their experiences with the Yumekaze Project Promotion. As such, the Yumekaze Project contributes to the promotion and planning of the renewable energy industry of the community of both the production area and the consumption area.

## **[2] Collaborating organization: Working with regional municipalities, NPOs, and corporations**

When the Yumekaze Project launched in Nikaho-city, it attracted participation from farming cooperatives, producers, processing companies, researchers, research teams of cooperatives members, and others. That number continues to increase. They have organized a system to collaborate with network-based organizations, such as region-led power producers, throughout the country. Sekatsu Club and the producers in municipalities near Nikaho-city have supported power generation projects and offered joint projects. At the same time, GFA will promote power generation projects that are consistent with the policies of the Sekatsu Club Kanagawa and Sekatsu Clubs in each region, so that they work within NPOs such as Institute for Sustainable Energy Policies(ISEP), an NPO of an energy policy research institute.

Finally, GFA gains participants and business partners around cooperatives, organizes collaborative work, expands the scale with progress, and diversifies the business contents. In the process of business development, as described below, they have established new companies. Sekatsu Club Kanagawa has not abandoned selling goods in the usual markets. They have established a stock company as a subsidiary, in addition to the development of the Purchasing Cooperatives business. Four corporations have been established thus far, including the Sekatsu Club Spirits Co., Ltd. and Sekatsu Club Energy Co., Ltd., which are involved in the Yumekaze Project. The distribution by the Sekatsu Club is a system that supplies consumers to members, whereas Sekatsu Club Spirits Co., Ltd. distributes and sells in general markets.

Products are made according to rules, such as the use of domestic products as raw materials, organic agriculture, pesticide-free, no genetically modified feed, and so on. Therefore, it is difficult to align minimum lots for logistics, resulting in high prices. The company solves this problem by developing sales channels of department stores and entering existing markets. For example, Sekatsu Club has protected the supply chain that makes corn starch from the milk of cattle raised on domestic feed by securing nongenetically modified maize.

Spirits Co., Ltd. applied this mechanism to process domestic tomatoes in the Serita district of Nikaho. Sekatsu Club Spirits Co., Ltd. instructed farmers how to cultivate tomatoes, conducted experimental cultivation in 2015; and shifted to full-scale cultivation in 2016. Sekatsu Club purchased the harvested tomatoes in full quantity and transported them for processing into ketchup. This was a successful partnership between Sekatsu Club's consumer materials and commercialization by Sekatsu Club Spirits Co., Ltd. The result is a business model that takes advantage of the merits of both cooperatives and market mechanisms to sell to consumers as a product, as well as selling beyond club members. As a result, they can secure profits for producers,

while guaranteeing a production method that maintains the standards of Sekatsu Clubs' ingredients (Okada April 8, 2015).

Sekatsu Club Energy Co., Ltd. is a power company established by the Sekatsu Club Group that implements power distribution projects. Mr. Hanzawa is the representative director. In 2015, following the announcement that the Japanese electricity market was to be liberalized, Hanzawa and others entered this market and decided to supply Sekatsu Club Energy Co., Ltd. to the members. The company's mission is to create a community based on natural energy that does not rely on nuclear power plants and fossil fuels by expanding energy conservation and natural energy. There are six philosophies:

- (1) Spreading regionally distributed renewable energy in place of nuclear power plants and creating a renewable energy society, promoting the autonomy of energy by citizens, and creating a sustainable future;
- (2) To create a society where citizens can select and use energy, with electricity liberalization to the home by the power system reform;
- (3) By entering the electric power business, clarify the price and mechanism of electric power, ensure the disclosure of information, ensure transparency, promote a joint purchase of electricity campaign by citizens who obtain power;
- (4) To save energy, create a community that can live richly, with less energy consumption;
- (5) Expand the network of Seikatsu Clubs, connected by natural energy, with social change movements and a commitment to the removal of nuclear power generation;
- (6) To appeal against energy policies through practice, to break the monopoly system of electric power, and to promote regional cooperation between food and energy through tie-ups of energy producing districts (Hanazawa 2014).

Sekatsu Club Energy Co., Ltd. supplies electricity to 55 bases including the Sekatsu Club offices, producers, and welfare providers in Tokyo Electric Power Company area, and 12 bases in areas covered by the major power companies in Hokkaido, Tohoku, Chubu and Kansai. When purchasing electricity, consumers can select the purpose and method of the power generation project. Visualization of this process leads to nurturing consumers who are interested in the purpose and manufacturing process for goods and services<sup>16</sup>.

As mentioned above, the Yumekaze Project embodies the business concept of the parent cooperative, whose purpose it is to contribute to the community. GFA implements these projects in cooperation with local governments and other organizations. Moreover, they are overcoming these insufficiencies by establishing a new organization and collaborating. The Yumekaze Project of GFA has the following features.

First, the business philosophy and methods in the parent cooperative of GFA are evident in the projects implemented. Second, in order to install the above business philosophy and method, GFA has created a new management form and working with a broad spectrum of entities. As a result, GFA was able to overcome the problems of cooperatives.

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<sup>16</sup> The Sekatsu Club defines ethical consumers as people who are aware that they can contribute to solving social problems through consumer behavior, such as choosing products and services that consider the environment and society (Sekatsu Club Kanagawa 2016).

### 3 Theoretical correlations in the international context

In this section, we examine the relationship between the GFA project and the remaining problem (3) from the viewpoint of business philosophy and methods, as well as formation and cooperation of a new management system. We first outline the ICA Statement of Cooperative Identity (1995). Next, we contrast the concept with the business philosophy and methods found in the Yumekaze project. And then, also we review the Four Priority Areas of the Laidlaw Report (Laidlaw 1980), which can be used to determine future direction of projects, and contrast this with the Yumekaze project.

#### 3-1 The ICA statement of corporate identity

The ICA Statement on Cooperative Identity (1995) (International Co-operative Alliance (1995)<sup>17</sup>, Co-operative identity, values & principles states that a cooperative 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.’ In addition, cooperatives should be 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 care for others. The cooperative principles are guidelines by which cooperatives put their values into practice (ICA Cooperative identity, values & principles 1995).

In principles 1 to 4, the core ideas and principles of the cooperative state that the members own and manage capital, and gain business benefits. Principle 5 (Principle of Education) shows that in order for the principle to work, education and training are provided to members who can demonstrate democratic management. Principle 6 (cooperative cooperation) sets out a methodology to increase the impact of organizations on economic activity<sup>18</sup>. On the other hand, principle 7 (involvement in the community) shows that the purpose of the cooperative’s project is to contribute to the community to which the members belong.

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<sup>17</sup> International Co-operative alliance (1995) Co-operative identity, values & principles  
(<http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>)

<sup>18</sup> Exchanges between the Sekatsu Clubs in Japan and organizations in Asian countries have been ongoing since the 1980s. For example, Sekatsu Club Kanagawa has a sister partnership with the Korean cooperatives, which was formed after visiting Japan. They had been trained and took part in the cooperative movement in Korea, after which cooperatives established a medical and credit cooperative and formed a council. In Korea’s cooperative policy, the basic cooperative law follows the principle of those in Europe (Hanzawa August 3, 2015). This is an example of an exchange between cooperatives across countries that resulted in the formation of a community.

In addition, Hanzawa said, ‘Instead of introducing Japan’s way of doing it, leaders developed their own ideas, while staff carried out exchange visits, children interacted with each other, and the producers continued to exchange each other, alternating back and forth, I hope to be able to continue to collaborate sideways’ (Hanzawa August 3, 2015).

**Table 1: ICA statement Principles**

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|-------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Principle 1</b><br><b>Voluntary and Open Membership</b>        | Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Principle 2</b><br><b>Democratic Member Control</b>            | Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organised in a democratic manner.                                                                                                                                                                                                                     |
| <b>Principle 3</b><br><b>Member Economic Participation</b>        | Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership. |
| <b>Principle 4</b><br><b>Autonomy and Independence</b>            | Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.                                                                                                                                                                                                                                                                                               |
| <b>Principle 5</b><br><b>Education, Training, and Information</b> | Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.                                                                                                                                                                                                                                                                                      |
| <b>Principle 6</b><br><b>Cooperation among Cooperatives</b>       | Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Principle 7</b><br><b>Concern for Community</b>                | Cooperatives work for the sustainable development of their communities through policies approved by their members.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

### **3-2 Comparison the Yumekaze project vs. the ICA statement**

The definitions, values, and principles of the ICA are rooted in the projects undertaken by Sekatsu Club, Kanagawa<sup>19</sup>. The club's mid-term plan<sup>20</sup> not only clarifies activities consistent with the definition, values, and principles of the ICA but also works within the international cooperative movement.

<sup>19</sup> Hanzawa said, 'I think that being honest is important... I am advancing with a methods to pick up discussions from the bottom. If decisions are made top-down, the people carrying them out will choose the easiest course of action. However, in Yumekaze, everyone decided and everyone acted. People could trust because they could have known everytihg on this process'(Hanzawa August 3, 2015). The value of 'honesty' is a central characteristic of cooperatives and is consistent with the first principle of the ICA. Hanzawa shared the cooperative ideals and action principles.

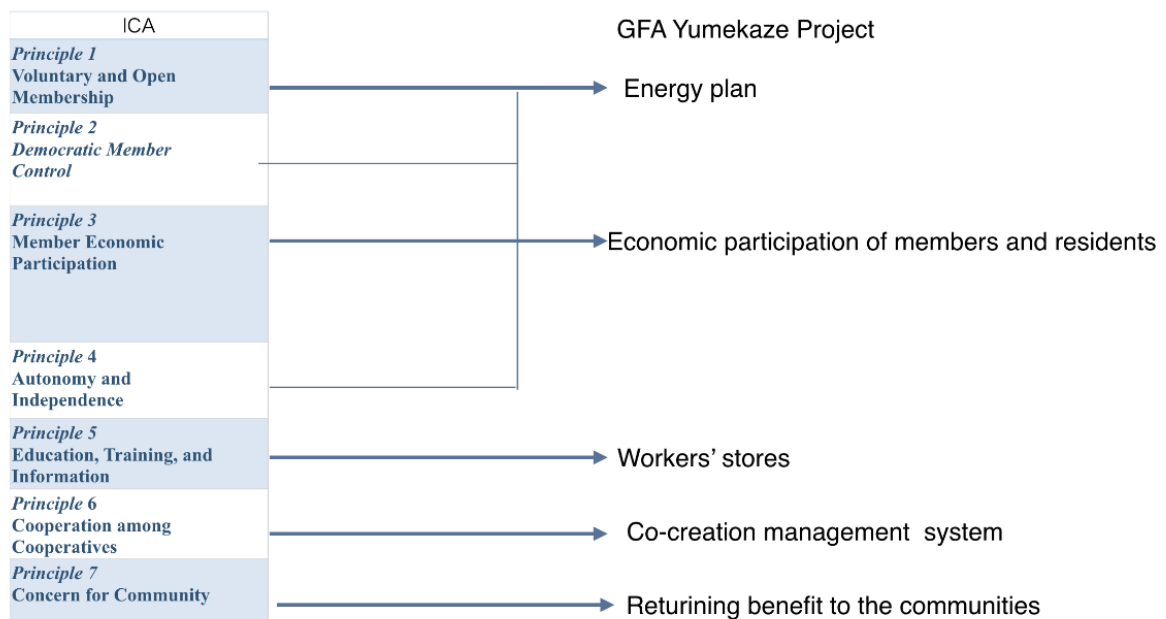
<sup>20</sup> The plan states, 'We will challenge to create workplaces and players as socially useful labor based on the principle of cooperation, not competing with Sekatsu Clubs, worker collectives, NPOs etc. in the community'. In addition: 'We are planning to create workplaces on the theme of food, environment, education, etc, including creating workers collectives in the development of work, life, community, and planning to work together in the regional community'.

Initially, the cooperative aims to maximize the profits of the union members, redistribute the surplus of the projected profits to the members, such as an increase in salary, without retaining the surplus profit in the organization over a fixed rate<sup>21</sup>. In the case of the Sekatsu Club Kanagawa, 10% of the accumulated surplus, rather than dividends, are redistributed as a refund according to the amount of money used by the members. On the other hand, 2% of net capital (1% retained earnings, 1% invested) is utilized for investment for sustainable management. This philosophy and methodology are in common with ICA Principle 1 (Owned) and 2 (Governance)<sup>22</sup>. Furthermore, according to the action plan of Sekatsu Club, there is a research department within the organization and the cooperatives members can voluntarily participate and acquire management skills while working at the stores. As a result, members who participate will learn the aforementioned ideas, behaviours, and principles, which is in common with ICA Principle 5.

The GFA release the decision process and the contents of the project implementation regarding Yumekaze project to relevant people. As a result, members and residents can actively participate, invest in, donate, and develop products by obtaining such information.

On the other hand, consumers recognise the purpose of the project and its products and services. Such features are in common with ICA Principle 3, which refers to economic participation of members. In this project, GFA procures and invests assets owned and managed by the members to contribute to the communities of both the metropolitan area and the area in which windmills are located. This business philosophy and method are in common with ICA Principle 7, which outlines commitment to the community.

**Table 2: ICA statement Principles vs. GFA activities**



<sup>21</sup> Sekatsu Club Kanagawa was in deficit, but has paid off its debts over 20 years. In recent years, the reserve fund has stood at about 9 billion yen and the capital ratio of 30%. Activity is sustained without decreasing the reserve funds. Some financial institutions offer of financing (Hanzawa August 3, 2015).

<sup>22</sup> In this form of cooperative management, cooperative members' contributions are capitalized. The net property is owned by the members. Executives and directors who are obliged to redeem capital respond to the needs of members so that capital expenditure minimized. Because the company owns capital and the profits are distributed to shareholders, capital cannot be retained within the region. When the capital is invested in the interests of the partners and the community, it can be returned to the partners and circulated within the region.

### 3-3 Sekatsu Club Kanagawa's consumer movement vs. the Laidlaw Report

In 'Cooperative Association in the Year 2000' (Laidlaw 1980), submitted to the ICA Convention, the section 'Choices for the Future' outlines<sup>23</sup>; 'This part of the study will concentrate on choices in four areas of fundamental importance and priority: food, employment, distribution of consumer goods and the community environment, and the possible roles that co-operative organization can play in each.' Four areas are Priority Number One: Co-operatives for Feeding a Hungry<sup>24</sup> World, Priority Number Two: Co-operatives for Productive Labor<sup>25</sup>, Priority Number Three: Co-operatives for the Conserver Society-The Present Situation<sup>26</sup>-, Priority Number Four: Building Co-operative Communities.

**Table 2: Laidlaw's Choices for the Future meaning**

| Priority Number                                                                                 | meaning                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Priority Number One:<br><i>Co-operatives for Feeding a Hungry World</i>                         | In the years ahead, co-operatives everywhere should concentrate especially on the world problem of FOOD, all the way from farming to consumer. It is an area of great human need in which the co-operative movement is in a position to give world leadership.   |
| Priority Number Two:<br><i>Co-operatives for Productive Labor</i>                               | Workers' productive and industrial co-operatives are the best means to create a new relationship between workers and the workplace, and to bring about another Industrial revolution.                                                                            |
| Priority Number Three:<br><i>Co-operatives for the Conserver Society-The Present Situation-</i> | The traditional consumers' co-operative should be oriented in such a way that it will be doing something more than merely trying to compete with a capitalist business. It will be known as a unique and different kind of business and will serve only members. |
| Priority Number Four:<br><i>Building Co-operative Communities</i>                               | To serve the urban population, there should be a cluster of many different kinds of co-operatives that have the effect of creating villages within the city.                                                                                                     |

<sup>23</sup> The report presents three crises and four priority areas. The three crises are 'survival crisis', 'management crisis' and 'ideological crisis' (Alexander Fraser Laidlaw 1980).

<sup>24</sup> Laidlaw made three points: Firstly, 'co-operative organizations of all kinds and at various levels ought to take the lead in bridging the gap between producers and consumers. Joint co-operative councils of farmers and urban people should take the initiative in a wide range of problems surrounding the production and distribution of food.' Secondly, 'farmers' co-operatives on the one hand and co-operatively organized consumers on the other should develop comprehensive food policies touching upon everything from protection of farmlands from urban encroachment to long-term planning of supplies.' Thirdly, 'as part of Priority Number One, national co-operative movements of the world should give first place to development programs assisting the organization of peasants and small farmers of the Third World.'

<sup>25</sup> Laidlaw explained, 'One of the most significant and far-reaching changes in the world co-operative movement in the last two decades has been the rehabilitation of the entire concept of workers' co-operatives. Here it is suggested that, next to food, employment in various kinds of workers' industrial co-operatives will be the greatest single contribution of the global co-operative movement to a new social order.'

<sup>26</sup> Laidlaw explained, 'The time has come to re-examine the concepts and assumptions of an earlier age directed by the philosophy of "the primacy of the consumer". The simple rule that the consumer should get value for his money is, of course, sound commonsense; but where concern for the consumer is extended to absurd and extravagant lengths to satisfy every whim, love of conspicuous consumption and waste of precious resources, the co-operative society should have none of it. If the world has to be run on a leaner mix, let consumers' co-operatives, by emphasis on economy and frugality, abandon the frills and waste of the post- industrial consumer society. In an affluent and surfeited society, a consumers' co-op may be judged on its impressive sales. In a less indulgent and perhaps saner society, it may be judged as well on what it refuses to sell.'

There are four area that cooperatives should address in expanding the worldwide poverty; *Priority Number One, Two, Three, Four*, which are universal behaviour standards of today's international cooperative movement. Sekatsu Club Kanagawa classifies the actions corresponding to these areas into specifications suitable for each region. 'Campaign to increase self-sufficiency of food' meets *Priority One*, 'Campaign to create workplace necessary for daily life' meets *Priority Two*, 'As a consumer cooperative, manage and operate from production to consumption' and 'To be responsible for regional welfare projects by workers collectives' corresponds to *Priority Three*, and 'Creating community through cooperatives' falls within the term of *Priority Four*. Sekatsu Club Kanagawa confirmed the philosophy, action principles, and business strategy of activities and business with Laidlaw, utilizing regional and human resources according to local needs, and assembling each project. The Yumekaze project is one practical example of such activity. Therefore, Yumekaze is a project that embodies the philosophy of the Laidlaw Report.

As previously described, as a result of contrasting the Yumekaze project with the definition, values, and principles of the ICA, and the priorities outlined in Laidlaw's report, the project aims at promoting the comprehensive energy policy of Sekatsu Club and the concept of a self-sufficiency zone in Kanagawa. It is a project that is being implemented based on the business philosophy and method, which align with international cooperative movement.

**Table 3: Laidlaw's Report vs. GFA activities**

| Laidlaw's Choices for the Future meaning                                                         | GFA's activities                                                                                                |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <i>Priority Number One:<br/>Co-operatives for Feeding a Hungry World</i>                         | The campaign to increase food self-sufficiency                                                                  |
| <i>Priority Number Two:<br/>Co-operatives for Productive Labor</i>                               | The movement to create a workplace<br>Manage and operate the supply chain<br>(consumer cooperative association) |
| <i>Priority Number Three:<br/>Co-operatives for the Conserver Society-The Present Situation-</i> | Workers Collective (Regional Welfare Service)                                                                   |
| <i>Priority Number Four:<br/>Building Co-operative Communities</i>                               | Building regional communities                                                                                   |

### 3-4 Success factors of Green Fund, Akita

How was the feature of GFA prepared? The GFA, which is a CBCC consisting of four cooperatives, an NPO, and a corporation produces, distributes, and supplies goods and services to revitalize the local community. In such a regional revitalization project, producers in rural areas and consumers in the metropolitan area, operate together successfully cooperatives concerned with food, energy, and welfare cooperatives operate. Moreover, they create industries that suit local needs, with the support of residents. An entity responsible for this project constructs a platform to create new businesses by forming an interactive network that links the cooperatives, an NPO, and various sectors, and introduces new actors.

In order to realise the business philosophy of the parent organization that shares the international context, the GFA developed a business by increasing the number of collaborating organizations and constructing a new management system. As a result, the GFA has overcome the

three challenges facing existing cooperatives in Japan. In other words, the GFA succeeded because it continued business practices in which the ideas and methods of cooperatives are inherent while creating a new form of management.

#### **4 Solving the research question: Characteristics of CBCC**

We derive the management system of CBCC, which is a management model to overcome the three problems surrounding the existing cooperatives, present the suggested characteristics of CBCC, and the regional revitalisation business.

##### ***4-1. Derivation of CBCC Management Model***

CBCC is an alternative management model of a new NPO that has the merits of cooperative management system. It also overcomes the three problems surrounding existing cooperatives and is implemented in three stages. In phase 1, cooperatives connected to both the consumption and the production areas are the parent organization; this is the stage of establishing a regional company. Here, the cooperative is led and a business model with cooperative ideals and methods is planned. In phase 2, funding for initial investment is obtained by cooperative partners, and a new business model is harmonized with the existing business model; the power generation project is planned. Here, new businesses (NPOs, corporations, etc.) are added along with the execution of a business model and development of sales channels, and the management system of the regional company is updated. At this time the NPO will provide community approved building methods and policy recommendations regarding technology and networks and the company will assist the operation of the business. In phase 3, CBCC aims to ensure smooth progress by balancing cooperative-oriented projects and the new business of regional companies. At this stage, more consumers, producers, and processors will participate and will impact the renewable energy policy of the municipalities in the consumption and the production areas.

##### ***4-2 Characteristics of CBCC***

CBCC has two characteristics. First, CBCC is managed differently as it funded by for-profit enterprises and the distribution of profits is in line with the principles of cooperatives. That is, a CBCC raises funds, invests in local communities, and produces goods and services.

Although a CBCC is the same as an NPO in that it aims to contribute to the local community, it is superior to the NPO in terms of project stability and sustainability. It is difficult for NPOs to have assets, distribute profits and losses, or utilize market mechanisms (Kato 2017), but cooperatives have assets, distribute profits and losses, and carry out their production, manufacturing, and processing, which provides a sales route and can open up the market. The above features are brought about by the cooperative's ideas and methods embodied in actual projects.

Second, the CBCC has the characteristics but not the management form of a cooperative. Therefore, it is not subject to individual cooperative law regulations. It establishes diverse collaborates with organisations of various sizes to ensure market coverage.

CBCC helps members of cooperatives in regional companies develop and commercialize goods and services. It then supplies the goods and services necessary for the community in projects with cooperative ideals, values, and principles. Partners will invest capital in consideration of local communities and future generations to create markets<sup>27</sup> and at the same time foster ethical further consumers. CBCC with these features could provide new management forms and create new business schemes.

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<sup>27</sup> Sekatsu Clubs, in collaboration with nonprofit and cooperative sectors, study micro-credits leading to the formation of a social investment market and are considering the establishment and operation of funds to lend to the underprivileged members of society.



### ***4-3 CBCC's community revitalization***

Regional revitalization projects by CBCC include the features, ideals, and methods of cooperatives. These include the principles of possession and governance and the mechanism of education and training.

This project will proceed within the context of the international community and be theoretically consistent. In other words, CBCC will invest in members of the local community and future generations, who will receive the benefits of such investment.

Although the scale of this project is relatively small, and its success is not necessarily guaranteed, goods and services are identified as valuable supplied to the community.

CBCC independently manages the supply chain from production to consumption. Their customers are ethical consumers that are attracted to social investment markets. Therefore, CBCC's business model is less susceptible to fluctuations in the economy and currency exchange, and there is little risk of being influenced by management situation of large global companies. If the CBCC becomes a regional economic player and supports the lives of the local community, there is the possibility that an industrial infrastructure will be formed to supplement the fragile part of the existing industrial structure. In addition, if the companies located in the area grow and expand the scale of their business, create stable supply protected from risks beyond local control. It is possible to reduce the uncertainty in the global economy and the risk of price fluctuation. Furthermore, CBCC will steadily maintain the local society and improve its durability, thereby contributing to enhancement<sup>28</sup>.

## **Conclusion**

There are three problems for the institution of cooperative associations in Japan: (1) difficulties in collaboration with other organizations, (2) separation by individual laws and barriers to varying form establishment, (3) divergence from the international context. CBCC overcomes (1) and (2) as it conducts projects between producers and processors in rural areas and consumers in the metropolitan areas, in collaboration with local governments. Furthermore, CBCC uses the ideas and methods in the 'ICA Statement on Cooperative Identity (1995)' and the Laidlaw Report (Laidlaw 1980) as evident in the business philosophy of the Yumekaze project, and (3) CBCC installed the context of international cooperatives in the revitalization project. The success factor of GFA seen in (1), (2), (3) above is a new management system, that is CBCC.

CBCC is an alternative management model of a new NPO that has the merits of cooperative management system. Through the three stages of its development cooperatives make up the parent organisation and establish a regional company. Then funding is obtained by cooperative partners, and a new business model (in this case for power generation) is harmonized with an existing one. As the project develops, the NPO will provide community consensus building methods and policy recommendations regarding technology and networks, and the company will help the operation of the business. Later, CBCC balances cooperative-oriented projects and the new business of launched companies. The renewable energy policy of the municipalities in the consumption area and those in the production area are impacted as more entities join the movement.

Thus, CBCC's regional revitalization promotes projects that include cooperative ideals and methods (sharing international context and logical consistency). The following characteristics can be identified: First, the CBCC has 'holding and governance principles' inherent in cooperative forms and 'mechanisms of education and training'; Second, the CBCC returns the profits invested

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<sup>28</sup> Hanzawa said, 'Since renewable energy can create energy suitable for the characteristics of each region within the region and use it in the area concerned, we will promote the local autonomy of the region by promoting the local production of energy and self-sufficiency of energy' (Hanzawa 2012).

to the members of the community and future generations; Third, the CBCC supplies goods and services to an area, and independently manages and operates the supply chain and fourth, ethical consumers who are familiar with the social investment market pioneered in this business are attracted to become new customers.

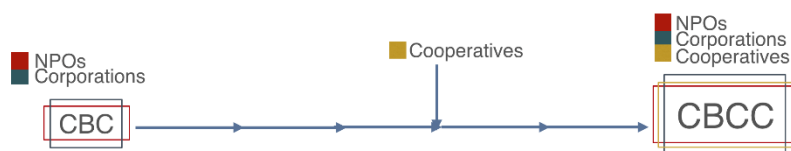
## Discussion

Kato (2018) identified and explored the community-based corporations (CBC) in 2018. CBCs are a form of organization that combines NPOs and corporations. CBCs appeared through three processes and has the characteristics of both NPOs and corporations: NPO's behavioural principles (affecting societal change, citizenship, contributing to the local area) and techniques (integrating project results with community-based decision-making), and corporate behavioural principles (pursuit of profit, economic sustainability) and techniques (marketing, promotion, financial strength). CBCs can cooperate with organizations in all sectors and can work with companies, the government, and NPOs. They are also responsible for the creation of a new industry that follows regionally based decision-making; thus giving back to the local area. Second, CBCs communicate a social mission with trust in citizens and consumers by supplying products. Third, a CBC utilizes a network and supports a community's NPO and new businesses. In this way, CBCs have overcome the limits of NPOs and companies.

However, CBCs have the following weaknesses. Green Fund Group is a CBC, but has not succeeded in having the majority of farmers, fishermen, and forestry workers support its promoting vitalization.

On the other hand, CBCCs have three benefits over CBCs. GFA consists of four cooperatives, an NPO, and a corporation. HGF (NPO) was the leading actor at the outset, because it had ties to a local Sekatsu Club. Thus, a CBC has developed into a CBCC. A CBCC's cooperative system brings a more profound philosophy and methodology than those of CBCs. CBCCs share a concept connection and method with the standards of the international cooperative movement. CBCCs can acquire activities and training to cooperate with foreign cooperatives. Therefore, CBCCs such as GFA compare a new management form that adds cooperatives as equal partners in decision-making.

**Figure 1 CBC vs. CBCC**

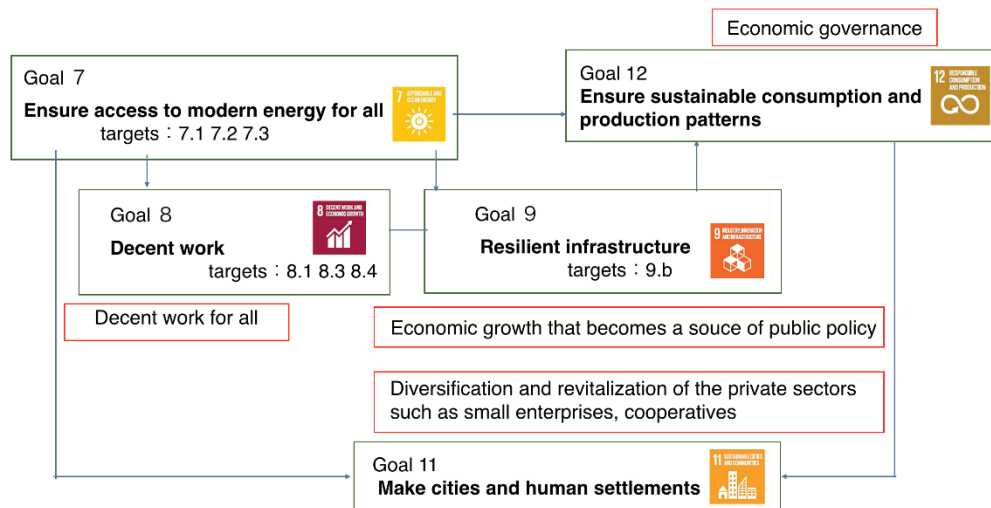


Second, it is possible to open up a social investment market more broadly and quickly than is possible with CBCs, forming autonomous coverage around the network between rural and metropolitan areas. Moreover, a CBCC works toward (1) economic governance, (2) economic growth that becomes a source of public policy, (3) diversification and revitalization of private sectors, such as small enterprises and cooperatives, and (4) worker satisfaction. At a time when global finance is increasingly being criticized, CBCCs can potentially create an economic zone, that matches the real economy opening a social investment market.

Third, vitalization projects implemented by CBCCs are an appropriate way of achieving municipal SDGs. CBCCs can expand regional revitalization with municipalities more effectively than CBCs can because the CBCC's power generation projects are integrated with some regions for open access to sustainable energy, they agree with SDGs, Goal 7. The principles of ownership and governance, as well as the mechanism of education and training inherent in the management form

of a CBCC, align with Goal 8. Investing in future generations is inherent in the management form of a CBCC, thus committing to a form of investment system to create sustainable cities and is aligned with Goal 11. Supply chain management and operation approach and the creation of ethical customers are also features of CBCCs aligned with Goal 12. Therefore, a cooperative system contributes to the achievement of SDGs 7, 8, 11, and 12. A CBCC represents a management form that contributes to the promotion of SDGs. The municipalities in each region are seeking management entities with which they can promote SDGs.

**Figure2: How does CBCC management reflect SDGs?**



Regional municipalities are seeking organizations that are responsible for the creation of community-forming industries. CBCCs can lead the way in both metropolitan and rural areas. This model suggests a methodology that can overcome the isolation of cooperatives and position them instead as primary actors in the regional industry.

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