The Co-operative Model in Practice

International perspectives

Edited by Diarmuid McDonnell and Elizabeth Macknight

UNIVERSITY OF ABERDEEN

CETS
Co-operative Education Trust Scotland

The Co-operative Model in Practice: International perspectives

A CETS Resource published with the support of the Scottish Government
and the Economic and Social Research Council.

First published 2012

ISBN 978-0-9555342-3-2

2012 UNITED NATIONS INTERNATIONAL YEAR OF CO-OPERATIVES
We build a better world

Contents

List of figures and tables

Contributors

James Beecher is currently undertaking a PhD research project at the Cardiff Institute for Co-operative Studies, based at UWIC (see www.uwic.ac.uk/cics). His research explores the resilience of mutual financial institutions in times of crisis. This includes assessment of whether UK building societies have been more resilient than UK stakeholder-owned banks to the recent financial crisis.

Johnston Birchall studied at Oxford and then spent five years as a housing association manager before returning to academic life with an MA in Social Policy and a PhD at York University. For the last twenty-five years his focus has been on the subject of co-operation, more specifically in member-owned businesses (co-operatives, mutuals, and user-controlled public service agencies). He has been at the University of Stirling since 1999. Johnston has written several books (with translations into five other languages), his latest being *People-centred Businesses: co-operatives, mutuals and the idea of membership* (Macmillan, 2010). Recently has he has been advising UN agencies on co-operative responses to the global economic crisis. He has a Leverhulme Fellowship for 2012, and is using it to write a book on people-centred banking.

Molly Scott Cato is Professor of Strategy and Sustainability at the University of Roehampton. She was previously Director of the Cardiff Institute for Co-operative Studies and has published widely on issues related to mutuality and co-operation. Molly is a green economist and is seeking to design and build an economy founded in social and ecological justice. Her new book, the *The Bioregional Economy: Land, Liberty and the Pursuit of Happiness* will be published by Earthscan in October 2012.

Elizabeth Macknight is an Australian academic who lectures in European history at the University of Aberdeen. In 2009 she began to collaborate with Hugh Donnelly, Director of the Co-operative Education Trust Scotland (CETS). This led to a successful application for a Knowledge Transfer Partnership grant (2010-12) sponsored by the Scottish Government and the Economic and Social Research Council to promote understanding of co-operative, mutual and employee-owned business models within tertiary education.

Catriona M M Macdonald is Reader in Late Modern Scottish History at the University of Glasgow. Her research interests lie in the social, cultural and political history of modern Scotland. Dr Macdonald's principal publications include *Whaur Extremes Meet: Scotland's Twentieth Century* (2009), which won the Saltire Society's History Book of the Year Award in 2010; *The Radical Thread: Political Change in Scotland, 1885–1924; Unionist Scotland* (1998) and (with E.W. McFarland) *Scotland and the Great War* (1999).

Olive McCarthy is a researcher in the Centre for Co-operative Studies and a lecturer in the Department of Food Business and Development, University College Cork. Her research interests include credit unions, community co-operatives and agricultural co-operatives. Olive is academic director of the MBS degree in Co-operative and Social Enterprise, offered by e-learning.

Diarmuid McDonnell received his BBs in Information Systems in 2010 and is now a researcher on a Knowledge Transfer Partnership (KTP) for the University of Aberdeen. Based in Glasgow, Diarmuid is working with the Co-operative Education Trust Scotland (CETS) to produce resource packs focusing on co-operative, mutual and employee-owned models of enterprise for use in higher education.

Sonja Novkovic is Professor of Economics at Saint Mary's University. Her research interests are in the field of labour-managed and co-operative firms, and comparative economics. She is focusing on evolutionary economics and learning via genetic algorithms, as tools of modelling adaptive economic agents. Dr Novkovic is also teaching in the Masters of Management for Cooperatives and Credit Unions (MMCCU) program at Saint Mary's. She is a past president of the International Association for the Economics of Participation (IAFEP) and Vice President of the Canadian Association for Studies in Cooperation (CASC).

Tony O'Rourke has taught banking, finance and capital markets in a number of universities in the British Isles and in countries in Central and Eastern Europe. His interests are in financial mutuals and financial co-operatives as strong engines of change in banking practice and operations. He also has a keen involvement in local and regional development of entrepreneurship using mutual models in Central and South East Europe and is co-author of a book on entrepreneurship in transition economies. Tony is currently looking at issues concerned with the financial crisis and how bankers failed to learn the lessons apparent from the Scandinavian banking crisis in the 1990s as well as acting as the advisor for an MBA programme at a university in Bosnia and Herzegovina.

Victor A. Pestoff received his B.A. in Political Science from California State University at Long Beach (US) and defended his PhD in political science at Stockholm University (Sweden) in 1977. He taught at Stockholm University for nearly twenty years: six years at the Department of Political Science and thirteen years at the School of Business. He became a Research Associate at Helsinki University (Finland) in 1988 and was a Research Fellow at Kanasawa University (Japan) in 1998. In the mid-1990s he joined the faculty of the newly opened Södertörns högskola (Sweden) and became a Professor of Political Science. He was appointed Full Professor of Political Science at Mid-Sweden University in Östersund (Sweden), in 2002 and retired in 2008. He is Professor Emeritus in Political Science and currently Guest Professor at the Institute for Civil Society Studies at Ersta Sköndal University College in Stockholm (Sweden).

Piotr Prokopowicz is a researcher, lecturer and organisational development consultant. He holds a PhD in Sociology and master's degree in Psychology from Jagiellonian University. In his research and consulting, he focuses on helping organisations in reaching their maximum potential through participation, transparency and evidence-based management. A member of the International Sociological Association, he co-authored *Total Participation Management*, a book on participative management practices, and was a part of the team that developed the Co-op Index, a tool for assessing co-operative values and principles.

Rory Ridley-Duff worked for over a decade in a worker co-operative that was a co-founder of Social Enterprise London. He is now course leader for the MSc Co-operative and Social Enterprise Management degree at Sheffield Business School and a board member of both Co-operatives Yorkshire and Humber and Social Enterprise Yorkshire and Humber. His most recent book is *Understanding Social Enterprise: Theory and Practice* (Sage Publications).

Ryszard Stocki is Associate Professor of Organisational Psychology and Head of the Managerial and Organizational Psychology Department at Wyższa Szkoła Biznesu – National-Louis University in Nowy Sącz, Poland. He is also a part-time lecturer at Jagiellonian University. His research concentrates on managerial and organizational cognition, business and managerial literacy, ownership culture, and total participation. Recently he started to work within the co-operative inquiry paradigm. In 2002 he published the book *Managing the Goods* which proposes an alternative approach to management based not on economic, but person-oriented anthropology. In 2005 he published the book on *Organizational Pathologies* and in 2008 he co-authored his fourth book *Total Participation Management*.

Michael Ward is professor and head of the Department of Food Business and Development and Director of the Centre for Co-operative Studies, University College Cork, Ireland. His research interests focus on agricultural and rural co-operatives, community and workers' co-operatives, and credit co-operatives. He has been active in developing successful new postgraduate and distance education programmes in the fields of co-operative organisation, food marketing and rural development.

Nick Weir has worked as a part-time vegetable grower on an allotment-based Community Supported Agriculture (CSA) project since 2001. He helped to set up Stroud Community Agriculture in 2002 and has since supported several other groups in setting up CSA projects around the UK including a third farm-based CSA project in Stroud and a woodfuel CSA. In 2005 he was a co-founder of a Food Hub in Stroud providing a low-cost, internet-based distribution system for local food producers to supply local consumers. More recently Nick helped to set up Local United which provides information and support for new community groups setting up projects to address the issues of peak oil and climate change.

Acknowledgements

The editors thank the Scottish Government and the Economic and Social Research Council for generous sponsorship of the Knowledge Transfer Partnership (KTP) grant which facilitated the work to bring together essays for this publication. We are also grateful to Scotmid, Co-operative Development Scotland, and The Co-operative Group for their important financial contributions. The guidance and enthusiasm of Robin Brown, Manager of the KTP North of Scotland Centre, was crucial at every stage of establishing the Partnership. We deeply appreciate Robin's ongoing support and Sarah Stott's cheerful handling of the KTP administration. Gerry Black, Senior KTP Adviser for Scotland, has been critically engaged in helping us to achieve optimal outcomes for the Partnership. Gerry's perspective on our work has been extremely valuable. Ross McLeod at graphics.coop brought creative and professional skills to the design of the book.

For permission to reproduce previously published material, we thank the following authors and publishers: Mark Mulhern, John Beech, and Elaine Thompson (eds), *Scottish Life and Society: The Working Life of the Scots*, for their permission to republish Catriona Macdonald's essay *A different commonwealth: the co-operative movement in Scotland* and Melbourne University Credit Union for permission to reproduce in modified form short sections from its commissioned history that appear in Elizabeth Macknight's essay.

Introduction – the co-operative model in practice

Research on co-operative enterprise is undertaken within a wide variety of academic disciplines: finance, economics, law, history, education, sociology, and management are just some of the fields in which innovative work is being done. Increasingly, too, scholars recognise the need for interdisciplinary collaboration to advance knowledge about co-operatives. In this collection of essays we have drawn together the research of fourteen international scholars to examine how the co-operative business model functions in practice within diverse cultural and social contexts. We have included case studies of co-operatives and credit unions operating in different national settings across Britain and Ireland, continental Europe, Australasia and the Americas. Together the essays show how the concept of democratic co-operation, applied to enterprise in commercial markets, developed into the basis of a truly global movement.

In compiling this collection we had two key aims. First, we wanted to illustrate the range of disciplinary approaches which are relevant for developing new knowledge about co-operatives. In today's education sector, at secondary and tertiary levels, there is a need to ask challenging questions about the world which cannot always be answered satisfactorily from the vantage point of a single academic discipline. That is not to say that discipline-specific teaching and learning and research are unimportant or lacking in examples of originality and innovation. Depth of knowledge will always be of critical value to societies. Curriculum development, however, in schools as well as in universities, is moving in the direction of encouraging breadth of study. This means that pupils and students should have the opportunity to investigate material beyond an individual discipline, and build the capacity to set disciplinary study within a wider intellectual context.

Our second aim is to meet the objective of a wider knowledge transfer project, between the Co-operative Education Trust Scotland and the University of Aberdeen, to promote understanding of co-operative, mutual, and employee-owned business models within tertiary education. For too long there has been a shortage of opportunities for university students to learn about the co-operative approach to enterprise during their degree programme. Few university business schools include it in the curriculum, in spite of the stimulus to economic growth provided by the co-operative movement and the fact that global membership of co-operatives currently stands at one billion. We have sought to address this shortage by developing academic resources with the needs of university teachers and learners in mind. This particular volume follows on from our earlier text *Democratic Enterprise: Ethical Business for the 21st Century* which provides an introductory-level analysis to co-operatives and employee-owned businesses. *The Co-operative Model in Practice* offers a different style of resource; it is suitable for postgraduate students with advanced ability to interrogate concepts and initiate their own investigative projects. We hope that it will stimulate academic debate and encourage further research in co-operative studies.

The nine essays in this collection cover a wide range of themes and geographical areas. They are ordered in such a way as to take the reader through an intellectual journey in co-operative studies. The collection begins with Catriona Macdonald's historical analysis of Scotland's co-operative movement. Macdonald addresses the market conditions affecting early Scottish co-operatives and the evolving relationship between co-operatives and the labour movement through the late nineteenth century and early twentieth century. Elizabeth Macknight's essay charts the origins of credit unions and then looks at how these co-operative financial organisations have fared in the late twentieth-century context of increasing regulation, new technologies, and sustained competition from banks. The essay identifies examples of the impact of credit unions in local communities and their efforts to alleviate the credit constraints of poorer members of society. The historical theme is continued in Tony O'Rourke's insightful analysis of the Slovenian co-operative movement, charting its development throughout military occupation, socialism, and a return to a more capitalist economy. His essay highlights the difficulties co-operatives experience when they get caught in the political crossfire or inextricably bound to a social/political movement.

Moving into the twenty-first century context, Olive McCarthy and Michael Ward's essay provides a case study of agricultural co-operatives in Ireland. Their research examines how these co-operatives assess and then manage change in response to micro and macro environmental factors. The case study format is continued in the next essay by James Beecher, Molly Scott Cato, and Nick Weir, with discussion of community food initiatives in Stroud, part of the Gloucestershire region of England. The community-based organisations' experiences are prefaced with a critique of the resilience of society's current food production and distribution systems.

Readers are then encouraged to challenge their assumptions of what constitutes a member-owned business (and by extension a co-operative) in Johnston Birchall's theoretical exploration of classification systems for co-operatives. Birchall proposes an alternative taxonomy for member-owned businesses, including a detailed critique of existing taxonomies. Victor Pestoff's essay then explores one of the more peculiar types of co-operatives: hybrid or multi-stakeholder co-operatives. Pestoff highlights the many challenges associated with pursuing multiple objectives and stresses the need for hybrid co-operatives in particular to develop meaningful relationships with their members.

The collection concludes with two essays exploring co-operative identity and performance respectively. Rory Ridley-Duff provides an account of the ideologies that influence co-operative formation and examines three types of legal forms that seek to mediate business purpose and social identity in co-operatives. In the final essay, Ryszard Stocki, Piotr Prokopowicz, and Sonja Novkovic detail a diagnostic tool for measuring participation in democratic organisations, in particular worker co-operatives.

A different commonwealth: the co-operative movement in Scotland

Catriona M M Macdonald

1. A different commonwealth: the co-operative movement in Scotland

Catriona M M Macdonald

In 1910, the Kilmarnock Equitable Co-operative Society reflected on its position on the eve of the twentieth century:

> The Society was a large, though never a bloated, capitalist. It was, in one direction, a banker, in another an educational authority, in another a considerable employer of labour. It had its brain, its body, its hands, and its feet. Its brain was busy planning, its hands were making, amassing, and distributing its products, its feet were carrying them to their destinations, its body was being nourished. It was a grocer, a baker, a boot and shoe maker, a flesher, a draper, a milliner, a china merchant, a fishmonger, a sausage maker and a ham curer.[1]

The co-operative movement, incorporating hundreds of consumer-owned co-operative societies across Scotland, disrupts the comfortable dichotomies that typically frame our understanding of the work-place and the locus of power in labour relations. Co-operators were both producers and consumers, employers and employees. They were at the interface of significant economic and ideological debates that dominated both the labour movement and radical politics at a key stage of their development at the beginning of the twentieth century, but they were awkward bed fellows for the emergent socialist interest. While central to the lives of thousands of Scottish households from the late nineteenth century until 1918 (at least) the movement remained on the periphery of Labour politics. Its membership and collective resources eclipsed anything either the trade unions or the Labour party could muster, but they occupied an uncomfortable 'space' in the commercial landscape that could not be easily accommodated in a Marxist world view.

On first appraisal, co-operators may have appeared the ideal body to act as the vanguard for creating society anew in a socialist mould, but their collective operations were typically undertaken in the pursuit of independence – independence from the capitalist trader, the 'middle man', the truck shop, the food adulterator, and the exploitative manufacturer. Unity was not necessarily a goal in itself, but a means to liberating each individual so that they, in turn, could seek self-improvement in an environment conducive to respectability.

Aims and identity

Critics of the movement were scornful of co-operative idealism and drew attention to the movement's vague yet all-embracing agenda. 'R.L.', writing in Chelsea in 1872, noted:

> These societies are to make the poor rich, the rich richer, to reduce the profits of the middle-man, to abolish the retail trader, to find employment for the precious talents of professional and other gentlemen in their leisure hours, to sweeten trade, and purify society, to teach self-reliance and self-supply, to teach the virtue of goods had, and paying cash promptly and before-hand, – and to work a revolution in the morals, manners, and trade of this great commercial country.[2]

Co-operators themselves hardly helped to clarify their position. An appeal from Kilmarnock Co-operators in 1866 highlighted tensions between collective and selfish interests:

> We believe it is possible by means of co-operation, for working men to obtain more wages with less work. Every man who eats may now add the profits of trade to the wages of labour. We look to co-operation – that is, united working for the general good – to achieve labour's emancipation.[3]

Of the founders of this Ayrshire Co-op, it was noted: 'They had no faith in State Socialism; they founded their hopes upon mutual self-help; they did not believe in an equality of condition; what they desired was an equality of opportunity, that they might by their own efforts rise to their rightful position in the social economy.'[4] Some years later, at the annual soiree of the Vale of Leven Co-operative Society in 1915, James Borrowman of the Scottish Co-operative Wholesale Society (SCWS) encouraged his audience to support the movement, not 'based on any sentiment of charity, but on enlightened self-interest'. He went on to explain the success of the movement in terms of 'intelligent selfishness'.[5]

When working men became employers, and prioritised their interests as consumers over their position as producers, the common order of things seemed to be overturned. It is hardly surprising that there was some confusion as to what all this meant. The co-ops could not and would not be typical shops, the co-operative wholesalers could not and would not be conventional manufacturers and distributors. In the day-to-day running of co-operative societies in Scotland, the tensions and contradictions inherent in 'Co-op' aims and identity are made transparent.

In some ways, there was little to distinguish co-operative business practices from those of independent retailers. Co-operators did not let their commitment to labour's emancipation blind them to poor service. A few examples must suffice. The Galashiels Waverley Store sacked their foreman baker for bad time keeping in 1874; the drapery salesman of the neighbouring co-operative Provision Store was disciplined in 1888 for spending too much time reading newspapers in the shoemakers' workshop; a year later the local 'Co-op' butchers were reprimanded for 'reckless driving', and in the same year, one co-operative member complained bitterly about the staff of the Eastern branch of the Galashiels Provision Store 'being almost worthless, continually making mistakes and very slow discharging their duties'.[6]

As co-operative societies multiplied there was also often as keen rivalry between co-operative 'brothers', as among the independent retailers themselves. In East Lothian, the Musselburgh and Fisherrow Co-operative Society rose to the challenge of new competitors (the Musselburgh Industrial Co-operative Society) in 1875.[7] And in the west, some thirty-five years later, the Wishaw Co-operative Society refused to draw up lines of demarcation to distinguish its areas of interest from those of the Cambusnethan and Overtown society branches 'as it interfered with individual liberty'.[8]

James Borrowman (SCWS), seemed to echo similar sentiments in his address to Congress in 1873, when he said: 'The distributive store is only co-operative to its members, and not to its employees, standing to them simply in the relation of capitalists and employers.'[9] But things were not that straightforward. In terms of their origins, influences, internal politics and relationships with other retailers, the 'Co-ops' were simply *different*.

Origins and influences

Many co-operative societies across Scotland were greatly influenced by their origins and the outlook of their founders. In Coalsnaughton (est. 1872), and Sauchie (Newtonshaw Co-operative Society, est. 1865), miners dominated the founding 'fathers' of the local societies.[10] In Cupar – as befitting a market town – diverse trades, including a cabinet maker, a blacksmith, a journalist, and factory workers, contributed to the founding of the local society (est. 1889).[11] The first twenty-nine members of the St George Co-operative Society (est. 1870) in Glasgow were all connected with the Grove Park weaving factory, and in Galashiels, the early membership of the Provision Store reflected the dominance of the wool trade in the area, being overwhelmingly spinners, dyers and weavers.[12]

The motives of such men otherwise un-connected with retailing were not those of the typical independent grocer: profit-making was only to be applauded insofar as it contributed to the well-being and progress of the society and the prosperity of its customers. Their work for the 'Co-op' often reflected their interests elsewhere. According to Kilmarnock's co-operative historian, the local pioneers were 'the very pick and cream of their class … men … of deep reading and of wide research'.[13] An analysis of the Vale of Leven founders shows this group in a similar light: a good many were elders or enthusiastic followers of local dissenting Presbyterian churches, active supporters of friendly societies, volunteers, and even parish councillors.[14] These were retailers who were to be open to ideals higher than the profit motive and also more diverse.

In a number of areas the co-operative movement was willing to sacrifice profit and higher dividends for the wider interests of the communities served. Examples abound of co-operative societies attempting to relieve distress when economic depression or industrial strikes threatened the livelihoods of their members. The Wishaw Co-operative Society distributed grants from its benevolent fund to needy members during the economic depression of 1908-9.[15] Stirling Co-operative Society reduced the cost of bread to striking miners and donated £50 for the relief of distress in the area in 1912, discounted all goods purchased for the local soup kitchen during the General Strike in 1926, and made weekly £5 grants to those experiencing acute distress.[16]

As employers, the societies also frequently offered advantageous terms and conditions to their employees. Co-operative employees in Sauchie were awarded a weekly half holiday in 1868, and employees in the Vale of Leven gained this right in 1872.[17] From 1897 Wishaw co-operators insisted that all contractors doing work for the society must pay trade union wages.[18] And in 1914 the St George Co-operative Society insisted that all its employees belonged to an appropriate trade union.[19] Beatrice Potter noted admiringly that the SCWS started the business of shirt manufacture at an immediate loss 'to avoid dealing with firms who employ labour under bad conditions'.[20] Wider interests were clearly at work.

Tensions between good business sense and co-operative loyalties are clearly illustrated in the movement's ambiguous attitude to credit. In general, co-operators were against offering members credit in their shops. However, dealing as they were with predominantly working-class customers whose occupations were frequently jeopardised by cyclical depressions and temporary unemployment, few societies could resist a credit culture for long. This could and did cause problems. In Sauchie, within eighteen months of launching the new 'Co-op', the debts of purchasers equalled one fifth of total sales.[21] A year later (1869), a cash only system was adopted. This was certainly in keeping with co-operative aspirations of encouraging responsible consumption. But when, within a short space of time, membership growth gradually declined and many members withdrew from the society, a more moderate policy was adopted, and a credit system was restored in 1870.[22] In Cupar, members' debts acted as a serious brake on the development of the infant society. By 1895, six years after the society's foundation, 'sales, if not going down were not increasing, debts would have to be wiped off in many cases, a sharp drop in dividend was the result, and members began to drop out.' To alleviate matters, the management committee agreed not to draw their salaries until the dividend was back to two shillings.[23]

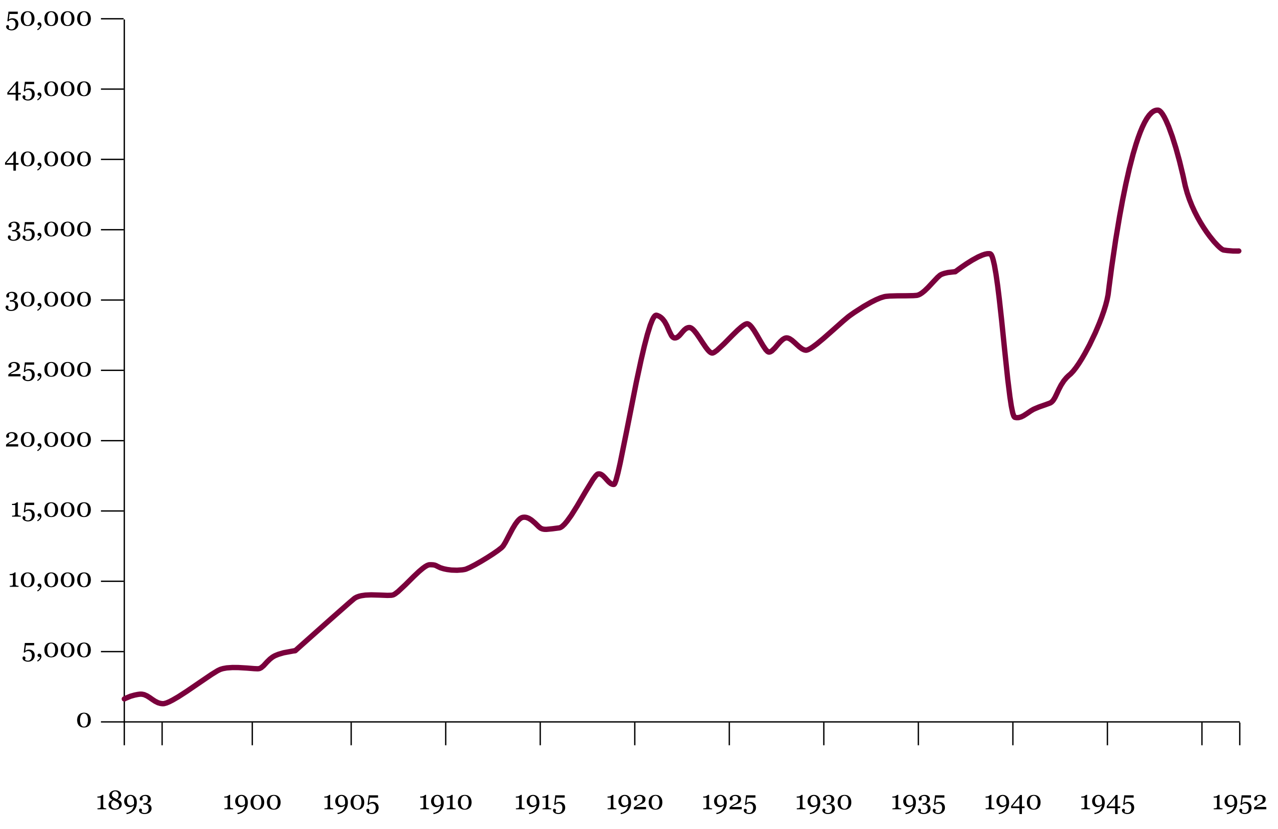
Interest groups within the membership also made a significant impact on the direction of co-operative enterprise in Scotland. The Scottish Co-operative Women's Guild (SCWG) most usefully illustrates this tendency. Jeannie Murdoch, 'a neat well-dressed woman', is the chief protagonist in

CATRIONA'S 1927 Co-operative sketch, *Dod! That Beat's A' or, Jining the 'Co'*. She explains to her friends what the 'Guild' is all about:

> They are wanting better conditions for women and children; they want better wages for the men; to do away with strikes and lock-outs and unemployment. They want a higher standard of life for everybody, and they want justice for all, and, above all, ... they want to abolish war with all its horrors and to establish peace on earth and goodwill to all.[24]

By the early 1950s, 'the Guild' was the largest self-governing women's organisation in Scotland, with over 33,000 members in nearly five hundred branches.[25] From its inception in 1892 it had often acted as the conscience of the movement, and the voice of the typical 'Co-op' shopper – a female voice.

Figure 1 – Scottish Co-operative Women's Guild (Membership, 1893-1952)



Source: K.M. Callen, History of the SCWG (Glasgow, 1952), pp. 31-2.

Note: 1894 figure contains one Irish branch; 1901 figure contains three Irish branches; 1906 seven Irish branched seceded to form an Executive.

At its 'coming of age' its President, Mrs Annie Buchan, claimed the Guild should be to the wider co-operative movement 'what the wife or mother is to the home… [a] strong, refining influence, leading (societies) to co-operative idealism, as the mother leads her husband and children in the right direction.'[26] The 'direction' the SCWG took supported minimum wage legislation, attacked credit trading, developed alliances with women's unions (for example, Women's Protective and Provident League), encouraged the development of co-operative rest homes, and (from 1893) supported the female parliamentary franchise. Theirs was a strong voice, and one that (predominantly male) co-op leaders up and down the country ignored at their peril after 1918.

Far from being a uniform body, then, the co-operative movement encompassed both competing and complimentary interests, and divisions within local communities frequently expressed themselves in the representative offices of the 'Co-op' boards. Unlike standard 'private' business interests, co-operative endeavours were often organic expressions of local interests. While this was generally a positive attribute, it also meant that local divisions were often manifest in co-operative structures too. In Sauchie, long-term tensions in the Newtonshaw Co-operative board led to the secession of a group of members who, in turn, formed their own co-operative society (the Industrial Society, est. 1880).[27] Similarly, in Kilmarnock, several hundred 'Co-op' members left to form their own society (the Kilmarnock Industrial Co-operative Society) in 1881, following a disagreement over management of the Kilmarnock Equitable Co-operative Society.[28] Still more sinister local tensions found expression in co-operative business elsewhere. In Wishaw in 1908 many Catholic members of the Wishaw Co-operative Society broke away to form the Wishaw Independent Co-operative Society (refused membership by the SCWS)[29]. Sectarianism was clearly the root cause of this secession.

The boycott

The 'Co-op' was not a 'conventional' retailer, nor was it treated as such by other independent traders. Suspicion, derision and outright opposition were the most common responses of the 'independents' when a local 'Co-op' shop opened nearby. In Perth, a fearful grocer erected a sign bearing the words 'Rochdale Store' above his own shop to 'see off' the new competition when the Perth Co-operative Society opened in 1871.[30] At their height such feelings expressed themselves in boycott action against co-operative retailers and wholesalers.

In Perth a society of traders and private dealers was established as early as 1885 to counteract the expansion of the Perth co-operative movement: part of its constitution demanded that no member employ anyone connected with the Co-operative Society.[31] While the trade of the 'Co-op' suffered in the short-term, by 1888 matters appear to have stabilised with no long-lasting implications for either the membership or the board. In the west-central belt of Scotland, however, the 1880s merely gave societies here a foretaste of things to come.

A Scottish Traders' Defence Association, with branches throughout the west of Scotland, was established in 1888 to combat co-operative propaganda.[32] Suppliers were encouraged to sack employees with 'Co-op' connections.[33] A lull in activity followed after 1889, only to be followed in the years 1895–97 by the longest period of severe anti-co-operative activity that Scotland had witnessed. Attacks on co-operation appeared in the press, and many private bread manufacturers found it impossible to sell their wares in Glasgow until their employees were given the choice of either leaving the 'Co-op' or being dismissed. Glasgow's William Reid recounted how, in the years 1896 and 1897:

> Spies waited outside of the doors of Co-operative shops and tracked the customers home until their names were ascertained. The next step was that of finding out the employers of the breadwinners and any other members of the families who were at work, when a letter was sent to the firm calling attention to the fact that the employees or their fathers or mothers, were members of a Co-operative society, and requesting their dismissal.[34]

Similarly, in Wishaw in 1897 children of co-operative members were discharged from their employment in a local factory, and other co-operators claimed they were being victimised by their landlord on account of their 'Co-op' membership.[35]

The co-operative societies fought back by forming their own Vigilance Committees, though these proved of little use in combating the boycott's ultimate expression – a dispute over meat sales in Glasgow's municipal markets. In June 1896 market stall holders and Glasgow's master butchers refused to take bids from, or trade with co-op agents, disrupting meat supplies to co-operative societies in the west of Scotland and beyond. Trading at Yorkhill quay in Glasgow was also affected, thus preventing the co-operators from initially sourcing foreign meat alternatives. Despite securing a by-law forcing traders to accept offers from all bona fide customers in municipal markets, the salesmen began trading in private, thus effectively blocking co-operative trade.

In the end, the boycott was broken when it became clear that by trading directly with Canadian cattle ranches and alternative local suppliers, the 'Co-ops' were getting round it. Indeed, many co-operators had been enthused by this fight, reaffirming their faith in the need for a co-operative 'commonweal'. Nevertheless, it had proved – if, indeed, proof was required – that the co-operators were seen from 'the outside' as a troublesome alternative to traditional retailers. Self-consciously distinctive in terms of their aims, origins, influences and practices, the 'Co-ops' failed to find accommodation in conventional trading circles. This would prove their greatest strength, and perhaps their most telling weakness in the long term.

The Scotch

As with many things 'Scotch', the strength of the co-operative movement north of the border in the early twentieth century was generously explained in terms of its native sensibilities. James Lucas, an early historian of the movement explained, in 1920:

> … co-operation in Scotland, by its very success, has taken from the air that it breathes something redolent of the mountains, moors and mosses of Caledonia… In its vigour today, in its persistence, in its self-assertion, in a certain roughness of order and method, we see proof of its national character. Its faults no less than its virtues proclaim it no alien. It is no exotic requiring hot-house protection and a gardener's special care.[36]

In its early development of co-operative values; in its numerical strength and successes in manufacture as much as trade; in the national profile of its leadership, and in its rhetoric of co-operative idealism, the Scottish movement thought of itself (and was often styled by outsiders) as a power house of co-operation in the UK.

Although some commentators questioned his influence, Robert Owen was adopted by many as Scotland's first co-operative prophet. Through his influence and that of his many disciples in the cause – most notably, Alexander Campbell – the co-operative ideal was introduced to early nineteenth-century Scots.[37] By the late nineteenth century, however, all that was left to remind another generation of these early experiments were memories of failure (here, the Orbiston community, 1826-1828, springs to mind), and a few struggling remnants of the societies founded by these and earlier pioneers.[38] Scotland could boast the oldest established co-operative society in the country – a 'title' alternately shared by the Govan Old Victualling Society (est. 1777) and the Fenwick Weavers' Society (est. 1769) – but few of these early societies weathered the economic challenges of the mid-nineteenth century: by 1910, the oldest co-operative society still trading was the Bridgeton Old Victualling Society (est. 1800).[39] It was not until the 1860s that the movement really 'took off'. Nevertheless, for the Scots, and for the movement in general, evidence of an earlier tradition in co-operative trading was significant: it seemed to establish their movement as a long-standing feature of the industrial landscape, and one that could not be easily dismissed as a whim or a passing fad.

Indeed, the strength of Scottish co-operation by the end of the nineteenth century and beyond would seem to indicate that the movement had learned the lessons of its past.

Table 1 – Co-operative Strength in Scotland, 1886, 1909

District	1886		1909	
	No. of Societies	No. of Members	No. of Societies	No. of Members
Ayrshire	29	9137	36	27916
Border Counties	12	6497	13	10796
Central	43	8525	43	36920
East of Scotland	34	22891	24	73891
Falkirk	20	8720	22	20623
Fife and Kinross	17	6239	35	31614
Glasgow and Suburbs	31	11432	37	92041
Perth and Forfar	39	24086	46*	66530
Renfrewshire	27	11084	23	30011
Stirling, Fife and Clackmannan	38	13829	14**	14511
Unallotted	20	14376	–	
Wholesale	1	231	1	276
Totals	311	137047	294	405129

Source: W. Maxwell, The History of Co-operation in Scotland: Its Inception and its Leaders (Glasgow, 1910), pp. 376-98.

* Includes Perth, Forfar and Aberdeen

** Includes Stirling, West of Fife, and Clackmannan.

On most Scottish high streets, and in the iconic solid structures of the Scottish Co-operative Wholesale Society at Shieldhall, and St Cuthbert's in Edinburgh, the Scottish co-operative movement at the turn of the twentieth century had became a recognisable feature of a new consumer age. Indeed, in 1968, a SCWS pictorial souvenir recorded:

> Scotland's figure for annual purchases per member is the highest in the United Kingdom – £115 per annum. One Scottish housewife in three takes her milk from a Co-operative dairy; every third spoonful of tea put into Scots' family teapots comes from a Co-operative grocery [40]

The leaders of this movement also developed a popular public profile. James Deans was an effective and respected propagandist for the movement in Scotland, who first joined a Co-operative Society in 1872. He was a major influence on the Co-operative Union and the Scottish Section, and took a lead role in the co-operative interest during the Boycott of the 1890s.[41] Yet towering above him was (Sir) William Maxwell, President of the SCWS between 1880 and 1908, and President of the International Co-operative Alliance between 1907 and 1921.[42] Even into the inter-war years, the co-operative movement had no difficulty in recruiting talented leaders: Neil Beaton, a native of Assynt, rose through the ranks of both the SCWS and the Shop Assistants' Union to become President of the SCWS (1932-1946), and later a director of the North of Scotland Hydro Electric Board.[43]

It was largely due to the careers, platform performances and writings of such men that Scotland acquired a reputation as a country alive to the most radical interpretations of co-operation. In his history of the movement in Scotland (dedicated to James Deans), Maxwell took a determined stance:

> This great united effort… is training our people to be more sympathetic with each other, to have no connection with shams and shoddy nor the sharp practices of trade and commerce, to be self-respecting and self-reliant. And it is giving the monetary assistance to strengthen them in this great moral and material reform.[44]

For Maxwell – a staunch Liberal – the most obvious way of achieving such 'reform' was through political engagement.

From an early date, Scottish co-operators were considered the most eager in the country to 'embark on the stormy sea of politics', and appeared more strongly in favour of *independent* political action than many of their English brethren.[45] Writing in 1920, James Lucas reflected that Scottish co-operators continued a national trait: '(they) followed the polemics of politicians with the same fervour that their ancestors had followed the polemics of theologians.'[46] But despite the efforts of Maxwell and others at successive Co-operative Congresses at the end of the nineteenth century the movement proved resistant to their clarion calls.

All things considered, one can clearly identify many features of co-operation in the north to ground Scotland's reputation as a nursery of co-operative activism. But is this the whole story?

Polemics and pragmatism

In 1922, Deans was sceptical of Scotland's commitment to co-operative idealism:

> What we now have is the danger of a large membership that does not understand one thing about co-operation, and thinks of itself only as entitled to receive material benefits and not in any way bound to make sacrifices for the future success of a grand idea. Our membership has grown beyond its own knowledge of principles, and large numbers who buy in the co-operative stores know no more and care no more for the creation of a co-operative system of trade and employment than if the idea had never been proposed.[47]

Throughout the history of co-operation in Scotland, the lived experience, as one might expect, fell far short of the rhetoric of platform speeches, and suggested that in many respects, Scotland's reputation for co-operative idealism was perhaps rooted in little more than inventive sentiment.

Maxwell himself was forced to admit that even the co-operative pioneers of the 1860s lacked an ideological attachment to co-operative principles. ('In vain will one look for anything higher than local interest and immediate reward from purchases…'.[48]) In Musselburgh and Fisherrow the financial spark that lit the co-operative flame was little more than a chance win on the Derby by a group of net mill workers.

The minute books of co-operative societies point to the fact that day-to-day business matters occupied the thoughts of members most of the time: the route of delivery vans, the quality of butter and the shape of loaves of bread at one time or another dominated meetings in Wishaw, for example. Attendance at such meetings was also not always guaranteed, and many societies (including Wishaw, Cupar and Galashiels) experimented with fines for unexplained absences. Lack of interest often plagued the societies' social events: the St George Society in Glasgow ran up a deficit after a series of 'socials' in 1888, and in Perth an evening lecture was cancelled in 1880 when it became clear that the speaker could not hope to compete with the counter-attractions of a 'waxwork and circus in the town'.[49]

Often it did not take much to lure members away from their co-operative loyalties, and back into the arms of private enterprise. In Kilmarnock, the co-operative committee bemoaned the actions of 'weak and simple [members] whose idea of excellence is expressed in the word "cheapness"'.[50] Other committees fought hard to realise their social obligations to distressed members, as frugal co-operators resisted attempts to use co-operative profits for this purpose, and cited the limitations imposed by the rule book in their defence.

Elsewhere, the much-vaunted co-operative interest in education was hardly in evidence. While Maxwell lauded the efforts of the St Cuthbert's Educational Department in Edinburgh which, by 1908, supported a strong musical culture in the society, and conducted classes in adult education, book-keeping, industrial history and political economy, other societies were reluctant educators.[51]

In Perth, a second attempt was made in as many years to end the regular grant to the educational fund at the 34th Quarterly Meeting of the Society, and draughts and dominoes seemed to be the major attraction for members using the Society's reading room.[52] The Wishaw Co-operative Society actually abolished its educational committee for the duration of World War I, and reduced its grant to the educational fund.[53]

In practice, co-operative actions often seemed to speak louder than words, and those actions were often far from radical. Despite co-operative pride in the growth of the SCWG, Mrs Annie Buchan – a prominent Guildswoman – had to be nominated thirteen times before she was accepted on to the otherwise male-dominated board of management of the St George Co-operative Society.[54] The Coatbridge Co-operative Library in 1921 boasted more entries under 'Samuel Smiles' than 'Socialism', and still retained old 'classics' by Cobden and Bright.[55]

When it came to politics, co-operative societies were frequently more cautious than the movement's leadership. In early 1905, a St George Socialist Group was established within the co-operative society of the same name. Within months, its existence was condemned at the Quarterly Meeting, whereupon the Group seemed to sink without trace.[56] In Wishaw even renting the 'Co-op' hall to the Independent Labour Party was a matter of debate that rumbled throughout 1918.[57]

Pragmatism rather than polemic motivated the majority of Scottish co-operators at the end of the nineteenth-century and the beginning of the twentieth century. For most members, the dividend mattered more than the fostering of a wider co-operative culture. For the leadership, however, World War I brought challenges that confirmed them in an increasingly political stance.

Prices, taxes and politics

Co-operative politics were an exercise in maintaining a somewhat unstable equilibrium which shifted with the circumstances of the wider political community, and were notoriously prone to the disruptive influences of individual localities and personalities. True, a number of co-operative successes in local government in Scotland were recorded in the 1890s, but the parliamentary dimension was controversial.[58]

A Joint Parliamentary Committee from 1892 monitored legislation going before both houses that was pertinent to co-operative interests, and William Maxwell managed to harness the resolve of the national Co-operative Congress meeting in Perth in 1897 in favour of a greater co-operative role in representative office. But support in subsequent years was not forthcoming. Even in Scotland, the Border Counties, the Eastern District and Renfrewshire all declared themselves opposed to Parliamentary representation in 1899, and in other districts members were clearly divided on the issue. Congress would not seriously debate representation again until the Paisley Congress of 1905, when the key speaker referred to Co-operative indecision as neither 'dignified, consistent nor worthy of a movement like ours.'[59] On the eve of war, the co-operative movement remained in the political shadows of a growing Labour interest, cast at the end of Liberalism's Indian Summer. But that would soon change.

In August 1914, Scottish co-operators followed most other Labour interests in quickly moving from scepticism regarding war aims to patriotic support. Whilst on 7 August, the *Scottish Co-operator* warned that 'the very civilisation of Europe has been flung into the melting pot of a world war, and may emerge not purified but destroyed'[60], a week later, it hesitatingly commented that 'Britain had no choice but to take her part in the struggle if she wished to retain her place of honour among the nations of the world.'[61]

The war was to have a profound impact on the politics of Scottish co-operators, and was to be the main factor in convincing many members and leaders alike of the necessity of political action. Due to its loss of employees and resources as a consequence of military service; the role of the state in mobilising the home front; the taxation of co-operative dividends, and the preferential treatment accorded private traders in the allocation of scarce commodities, the co-operative movement found that only a political response could address what were – for the most part – very practical problems.

The roll of honour of the SCWS suggests the toll which war took on co-operators and their employees across Scotland. Over 2,000 SCWS employees served in the armed forces during the war, and of these 315 lost their lives.[62] Across Scotland, other local co-operative societies also recorded serious losses. Regardless, the co-operative motto, 'Each for all and all for each' was regularly employed to reaffirm co-operative support for war aims which found a ready echo in their own movement. But war 'cost' in other ways: £140,000 was spent by the SCWS making up the difference between their employees' military pay and their usual co-op salaries, and co-operative vehicles and horses were commandeered for the war effort: fifteen horses from Coatbridge had found their way into military service as early as August 1914.[63]

In the early months of war, co-operators were clearly more than prepared to 'do their bit'. But war weariness would dull initial enthusiasm. Co-operators came to complain about the presence and influence of traders on local Military Tribunals adjudicating claims for exemption from service.[64] Too often, it seemed, co-operative employees were being denied exemption while the experienced staff of independent traders were safeguarded by their bosses. For some this was symptomatic of a State that was ignoring co-operative views and taking their support for granted.

Discontent became most manifest in 1915, when it was declared that the co-operative movement was to face Excess Profits Duty on the dividends it awarded members. Co-operative trade had grown significantly over the course of the war, but this was largely due to an enlarged membership across which any profits had to be divided. It seemed plain to co-operators that the government either did not understand or chose to ignore the nature of co-operative enterprise. The rules were eventually changed in 1917 so that co-op members were not unduly penalised, but between 1915 and 1917, the Duty had seriously eaten into co-operative profits: for example, the amount paid by the SCWS in duty wiped out all the profits from its Shieldhall works – a sum of over £167,000.[65] For individual co-operators, most felt the impact of the tax in reduced dividends at a time when wages were failing to keep up with the cost of living.[66]

The year 1917 was to be a turning point. As scarcities in sugar and cereals across Britain were being recorded, co-operators found themselves excluded from Local Food Committees established by the Ministry of Food to co-ordinate the distribution of scarce supplies. Instead, the Committees were dominated by local independent traders who, it seems, safeguarded the interests of private enterprise to the detriment of the co-op. Abuses were evident across Scotland: for example, Kinloch and Butt record how the SCWS failed to receive any of the additional supplies of sugar destined for the West of Scotland in 1917 despite being the largest retailer in this area.[67] In September 1917, the *Scottish Co-operator* ran a story headlined, 'Where did the Sugar Go?'[68] Even at their most even-handed, the co-op was disadvantaged by the Food Committees' system of distribution which based allocations on pre-war levels of consumption: co-op membership had increased, but no-one seemed to be listening.

In Paisley, earlier Labour unity over taxation was again reaffirmed when the Trades and Labour Council refused a request by the local authorities to co-operate in a Food Economy Committee and instead supported the Equitable Co-operative Society's Food Protest Demonstration in December 1917. A month later, Labour and Co-operative interests in Paisley formed a Food Vigilance Committee. Across Scotland similar moves towards greater understanding were bringing Co-operators and the Labour movement closer together. P. Malcolm wrote in the *Scottish Co-operator*: 'The old humdrum repetitions of the benefits of high dividends are a thing of the past.'[69]

The Annual Congress of the Co-operative Movement meeting in Swansea in 1917 affirmed that British co-operators would hence-forth be represented by their own political party, known after 1919 as the Co-operative Party. And at an 'Emergency Meeting' in Westminster later that year, a programme for the infant party was agreed. Scottish co-operators had anticipated the establishment of the national party earlier in the year when they had set up a Central Co-operative Parliamentary Representation Committee, and Scottish co-operators (including William Maxwell) were to the fore at the Westminster meeting. Indeed, Deans, Secretary of the Scottish Section of the Co-operative Union, moved the acceptance of the eleven aims which, together, formed the first programme of the Co-operative Party.

Firsts and failures

As the 'Co-op' in all its various manifestations was arguably the most successful workers' movement in Scotland, hopes were high in these early days that the new party would break the mould of Scottish politics and infuse the bitter political environment of the Coalition years with the idealism of the movement's founding principles. There was every reason to believe it would be successful. Co-operative membership in Scotland by 1916 numbered over half a million and it kept on rising. In addition, in an era which saw women enter polling booths for the first time, the influence of the Co-operative Women's Guild, it was anticipated, was sure to be an advantage.

Yet, its initial forays into parliamentary politics were disappointing. In the 1918 General Election the Co-operative Party contested only three Scottish seats: Paisley, Clackmannan and Kilmarnock, and was unsuccessful in each. Its fight against Asquith in Paisley in 1920 was admirable: the Co-op candidate, J.M. Biggar improved on his 1918 performance and secured nearly forty per cent of the vote in a three-cornered contest. But in the 1922, 1923 and 1924 General Elections the results were disappointing: Tom Henderson was successful in Tradeston in 1922, and held his seat in 1923 when he was joined by A.Young in Partick. But in 1924, while Henderson remained in office, Young's brief spell in the Commons came to an end.

Explaining why the Co-operative Party was not more of an immediate success is a complex matter, though four areas call for particular attention: the nature of the co-operative movement as both an employees' and employers' organisation; the diversity of political views which remained in the movement even after 1917; the regionalism and local autonomy of a movement which – whilst its greatest strength – could also be a political liability for a party effectively controlled from London and the relationship which the infant Co-operative Party had with the Labour Party.

Putting to one side local disputes over candidatures and affiliation, the last of these factors encourages us to return again to fundamental issues surrounding the aims and identity of the 'Co-op'. The Labour and Co-operative parties, while sharing many immediate goals in 1917, were at odds over the role of the state. Indeed, it is open to question whether many in the Co-operative Party in 1917 had a vision of co-operative politics out-with the context of war. Of the eleven points in the 'Co-op' Programme of 1917, the first three sought the protection and extension of co-operative enterprise; the fourth, fifth, seventh and eighth offered a series of pledges about the scientific development of agriculture, the provision of light railways and quality housing, the taxation of land values, equal opportunities in education and increasing death duties; the sixth called for a National Credit Bank to aid municipalities and (of course) co-operative societies; while the ninth demanded Parliamentary control of foreign policy; the tenth, the sensitive demobilisation of military conscripts and the eleventh vaguely pointed to the 'breaking down of the caste and class systems, and the democratising of state services – civil, commercial and diplomatic'.[70]

At a time when the Labour Party stridently embraced a centralising and nationalising state, the Co-operators were strangely silent on their vision of government and the control of industry. Even among the co-operative leadership a clear party line was not evident.

As far back as 1898, Maxwell had declared that 'Co-operation seeks the help of no one; it asks neither the help of State or municipality, but demands the help of its membership'.[71] Yet, at the Paisley Congress in 1905 it was claimed that 'co-operative action and enlightened State action are but developments of the same ideal, namely, the regulation of our complex social relationships upon the basis of justice and equity'.[72] As the Co-operative Party came increasingly under the wing of the Labour Party after 1927, and as joint candidatures became ever more the norm, these ambiguities at the heart of Co-operative Party policy making were still to be resolved.

Conclusion

> The trade unionist, generally speaking, had no use for what he regarded as the milk-and-water gospel of the Co-operator; the Co-operator thought the trade unionist merely a loud-mouthed and foolish disturber of industrial peace. They agreed, however, in thinking that the Socialist was an empty-headed dreamer of vain dreams; and the latter retaliated by cursing them both as impracticable materialists who were losing a kingdom whilst they fought for a few scraps on a dust-heap![73]

The Scottish co-operative movement has achieved much more than 'a few scraps on a dust-heap' during its lifetime, though in the long run, it has never fully realised its early leaders' dreams of creating Scotland anew.

Largely due to amalgamations in the first instance, the number of societies affiliated to the SCWS began to decline from the late 1930s. Indeed, in 1943 only the objections of Scottish nationalists blocked proposals for the amalgamation of the SCWS and the English Co-operative Wholesale Society (CWS). (The CWS voted for amalgamation.) By the 1950s, the Scottish 'Co-ops' were clearly feeling the pressure of competition in an increasingly affluent society, as consumers prioritised lower prices over the 'divi', and were prepared and – with car ownership increasing – more able to travel to secure the 'best' price. Merger of the SCWS with the CWS was finally brokered successfully in 1973, and thereafter changes in management practices sought to 'modernise' the 'Co-op'.

At the turn of the twenty-first century, the 'Co-op' in Scotland would have been unrecognisable to its late Victorian sponsors. In 1981 Edinburgh's famous St Cuthbert's Society joined with the Dalziel Co-operative Society of Motherwell to form the Scottish Midland Co-operative Society (Scotmid). Continued growth and mergers with successive smaller interests meant that even in the competitive trading environment of the new century it boasted 160 outlets, including health and beauty shops and funeral parlours. In 2001, the Co-operative Union (the main sponsor of co-operative idealism and political engagement since 1869) combined with the Industrial Ownership Movement, merging for the first time the foremost national organs of consumer and employee co-operation. At much the same time, the CWS changed its name to the Co-operative Group Ltd. At that point the Co-operative Party had twenty-nine MPs in the House of Commons co-sponsored with the Labour Party. In 2004 the party boasted six MSPs in the new Scottish Parliament.

The history of Co-operation in Scotland throws into relief 'big' questions concerning the role of workers and consumers in the development of both the country and its politics. We are left to wonder why Labour did not prove broad enough to speak for the consumer as loudly as it did the producer, and why the biggest and arguably most successful grassroots movement in Scotland failed to flourish in the late twentieth century. In the end we retain the beguiling 'what might have been' of a workers' movement that – on paper at least – could have re-shaped the labour history of Scotland; an economic institution that had the potential to democratise the market-place, and a community that for the most part strived to live its founders' motto 'Each for all and all for each' – a different commonweal.

Endnotes

1 W. Robertson, *Kilmarnock Equitable Co-operative Society Ltd: A Fifty Year's Record* (Kilmarnock, 1910), p. 87.

2 R L. of Wandsworth Common, *Diddledom: Or Tonics for the Co-operative Society Fever* (Chelsea, c1872), p. 12.

3 Robertson, *Kilmarnock*, p. 22.

4 Robertson, *Kilmarnock*, p. 120.

5 T. Stirling, *History of Vale of Leven Co-operative Society* (Alexandria, 1915), p. 43.

6 National Library of Scotland [NLS], Acc 4722/15, 18 Jan. 1874; Acc 4772/4, 8 March 1888, 25 March 1888, 22 April 1889.

7 Musselburgh and Fisherrow Co-operative Society Ltd. *One Hundred Years of Progress: Musselburgh and Fisherrow Co-operative Society Ltd*., (1862-1962), c1962.

8 G. Battison, *Wishaw Co-operative Society Ltd.: A Record of its Struggles, Progress and Success from its inception in 1889* (Glasgow, 1939), p. 41.

9 As quoted in J. Kinloch and J. Butt, *History of the Scottish Co-operative Wholesale Society* (Glasgow, 1981), p. 64.

10 W. Cook, *Co-operation in Coalsnaughton, Golden Jubilee: a historical sketch of the Coalsnaughton Society Limited*, 1872-1922 (Alloa, 1990), p. 6; J. A. Flanagan, *Co-operation in Sauchie: A Retrospect, 1865-1915* (New Sauchie, 1915), p. 18.

11 H. C. Laing, *History of Cupar and District Co-operative Society Ltd.* (Cupar, 1939), pp. 11-13.

12 W. Reid, *Fifty Years of the St George Co-operative Society Ltd., 1870-1920* (Glasgow, 1923), p. 10; NLS, Acc 4772/1, 25 Sept. 1846.

13 Robertson, *Kilmarnock*, p. 119.

14 Stirling, *History*.

15 Battison, *Wishaw*, p. 39.

16 R. Murray, *Stirling Co-operative Society: A Historical Sketch of its Fifty Years of Progress* (Glasgow, 1930), pp. 49 and 61.

17 Flanagan, *Co-operation*, p. 18; Stirling, *History*.

18 Battison, *Wishaw*, p. 23.

19 Reid, *Fifty Years*, p. 100.

20 B. Potter, *The Co-operative Movement in Great Britain* [1893] (Aldershot, 1987), p. 105.

21 Flanagan, *Co-operation*, p. 28.

22 Flanagan, *Co-operation*, p. 33.

23 Laing, *History*, p. 21.

24 Catriona, *Dod! That Beat's A' or, Jining the 'Co': A Humorous Scottish Sketch for Five Females* (Glasgow, 1927), p. 10.

25 K. M. Callen, *History of the Scottish Co-operative Women's Guild: Diamond Jubilee 1892-1952* (Glasgow, 1952), pp. 17, 32.

26 A. Buchan, *History of the Scottish Co-operative Women's Guild* (Glasgow, 1913), p. xii.

27 Flanagan, *Co-operation*, p. 43.

28 Robertson, *Kilmarnock*, p. 66.

29 Battison, *Wishaw*, pp. 38-9.

30 J. Willocks, *The City of Perth and its Co-operative Society* (Glasgow, 1892), p. 132.

31 Willocks, *The City*, pp. 227-35.

32 J. Lucas, *Co-operation in Scotland* (Manchester, 1920), p. 65.

33 Kinloch and Butt, *History*, pp. 245-67.

34 Reid, *Fifty Years*, p. 64.

35 Battison, *Wishaw*, pp. 23-4, 26.

36 Lucas, *Co-operation*, p. 10.

37 See W. H. Fraser, *Alexander Campbell and the Search for Socialism* (Manchester, 1996).

38 The co-operative community of Orbiston employed one hundred men at its height, and housed them and their families in basic accommodation on an estate of roughly 290 acres in Lanarkshire. Holyoake notes: 'An ill-assorted random collection of most unsuitable persons flocked to the spot, which speedily acquired the emphatic name of 'Babylon' from the surrounding population, a title, we should imagine, most applicable alike to its inhabitants and its proceedings.' G. J. Holyoake, *History of Co-operation* (London, 1875), pp. 272-6.

[39] W. Maxwell, *Address at the Opening of the Chancelot Flour Mill, Edinburgh, August 1894* (Glasgow, 1909), p. x. Note: Govan Victualling Society closed its doors in 1909.

[40] Scottish Co-operative Wholesale Society Limited, *Co-operation in Scotland: Pictorial Souvenir of Scotland and Some Co-operative Enterprises* (Glasgow, 1968), Introduction.

[41] J. Deans, *Co-operative Memories: Reminiscences of a Co-operative Propagandist* (Manchester, 1922).

[42] Obituary, *Glasgow Herald*, 11 Feb. 1929.

[43] J. Wardlaw, *Neil S. Beaton: an Appreciation* (Glasgow, 1946).

[44] W. Maxwell, *The History of Co-operation in Scotland: its inception and its leaders* (Glasgow, 1910), p. 373.

[45] Lucas, *Co-operation*, p. 72. See also G. D. H. Cole, *A Century of Co-operation* (London, 1944), p. 312.

[46] Lucas, *Co-operation*, p. 72.

[47] J. Deans, *Co-operative Memories: Reminiscences of a Co-operative Propagandist* (Manchester, 1922), p. 55.

[48] Maxwell, *The History*, p. 234.

[49] Reid, *Fifty Years*, p. 40; Willocks, *The City*, p. 205.

[50] Robertson, *Kilmarnock*, p. 29.

[51] NLS, Acc11650, 1908.

[52] Willocks, *The City*, pp. 187 and 216.

[53] Battison, *Wishaw*, pp. 47 and 65.

[54] Callen, *History*, p. 24. Note: Even in 1949 the Board of Directors of the St Cuthbert's Co-operative Society (Edinburgh) had only four female members out of a total membership of twenty-one. *St Cuthbert's Co-operative Association. 1859 to 1949: Festival cavalcade exhibition, Waverley Market, Edinburgh 20th August to 3rd September, 1949* (Edinburgh, 1949), p. 11.

[55] Coatbridge Co-operative Society Limited, *Catalogue of books in the library of Coatbridge Co-operative Society*, *Limited* (Coatbridge, 1921).

[56] Reid, *Fifty Years*, pp. 89-90.

[57] Battison, *Wishaw*, pp. 67-8.

[58] See C. M. M. Macdonald, *The Radical Thread: Political Change in Scotland, Paisley 1885-1924* (East Linton, 2000); J. J. Smyth, *Labour in Glasgow*, 1896-1936 (East Linton, 2000).

[59] T. Tweddell, *Direct Representation in Parliament* (Manchester, 1905), p. 7.

[60] *Scottish Co-operator*, 7 Aug. 1914.

[61] *Scottish Co-operator*, 14 Aug. 1914.

[62] Scottish Co-operative Wholesale Society Limited, *Roll of honour, 1914-1919 employees of S.C.W.S. who served with His Majesty's forces in the Great War* (1920), p. iii.

[63] Scottish Co-operative Wholesale Society Limited, *Roll of honour*, p. iii; *Scottish Co-operator*, 21 Aug. 1914.

[64] See Laing, *History*, p. 34.

[65] Kinloch and Butt, *History*, pp. 275.

[66] Kinloch and Butt, *History*, pp. 272 (Table).

[67] Kinloch and Butt, *History*, pp. 276.

[68] *Scottish Co-operator*, 28 Sept. 1917.

[69] *Scottish Co-operator*, 5 Oct. 1917.

[70] *Scottish Co-operator*, 19 Oct. 1917.

[71] Maxwell, *Address*, p. 332.

[72] Tweddell, *Direct Representation*, p. 9.

[73] Murray, *Stirling*, p. 47.

Credit and community

Elizabeth C. Macknight

2. Credit and community

Elizabeth C. Macknight

A credit union is:

> a co-operative financial organisation owned and operated on a not-for-profit basis by its members according to democratic principles. Its purpose is to encourage savings, to use pooled funds to make loans, and to provide other related services to members and their families.

In 2010 there were 52,945 credit unions in 100 countries with almost 188 million members and over US$1.2 trillion in member savings. Credit unions worldwide follow international operating principles approved by the World Council of Credit Unions (WOCCU) based in the United States.[1]

The democratic ownership and governance of a credit union are summed up in the phrase 'one member, one vote'. To become a member a person buys a share, and shareholders elect a board of directors to run the credit union. Membership is open and voluntary; it entails equal rights to vote on issues affecting the credit union; and it is non-discriminatory in respect to age, sex, race, nationality, religion and political beliefs. The purposes of a credit union are: to distribute surpluses to members; to build financial stability to provide continued service; to promote education on regular saving and the wise use of credit; to co-operate with other co-operative associations; and to foster social responsibility in the broader community.

Credit unions are mutual self-help organisations; they enable members to make the best use of financial resources through saving, borrowing, and budgeting wisely. 'Mutuality' describes a form of social contract or agreement to save together and to provide loans and other financial services to one another on affordable terms. Underpinning this contract is the notion of 'social capital', or relationships and attitudes formed through active community involvement, which promotes values such as trust and tolerance. These things have no monetary worth but they can be used to measure the 'wealth' of a society. When they are run down or eliminated, a society becomes poorer.

The historical development of credit unions illustrates how mutuality has been applied in all parts of the world to help communities become more equitable and sustainable. Globally, the statistics on membership, geographic distribution, and assets of credit unions point to the strength and significance of these co-operative financial organisations. Yet we need to look beyond numbers to understand how credit unions go about achieving their purposes, as well as the factors that limit or enhance their effectiveness. Australia serves as a case study in this essay to show how changes in legislation, and the resulting increase in the bureaucratic burden, have posed a threat to small credit unions' survival. In other countries, too, credit unions have had to adapt to new regulatory systems at the same time as rapid evolution in information technology has forced organisations into a faster pace of communications. Around the world credit unions must compete in a marketplace dominated by banks; hence, the study of credit unions requires both a grasp of domestic context and a global perspective. These co-operative organisations are founded to deliver benefits to local communities. In this way they also make an impact on national economies, and bring diversity to the international market for financial services.

From Europe to North America

The history of credit unions has been traced back to co-operative activity in Europe during the nineteenth century. In 1844 the Rochdale Society of Equitable Pioneers in Lancashire established a co-operative store with business practices founded on the principles of open membership, democratic control, and the distribution of profit to members after operating expenses were met. In the same year, a German Lutheran and academic, Victor Aimé Huber (1800–60) issued a call for 'Christian communal life based upon economic reforms, with the help of associated activity carried on in the spirit of Christian love'. Huber's ideas were eventually published in *Lectures on the Solution of the Social Problem* (1861) but were put into practice earlier by Hermann Schulze-Delitzch (1808–83), a liberal member of the Prussian Parliament. Schulze-Delitzch chaired an inquiry into the conditions of urban workers in the 1840s, and from 1850 began to set up 'People's Banks' that encouraged the pooling of surpluses and granted loans to persons of good character. Friedrich Raiffeisen (1818–88), mayor of Weyerbusch, Flammersfeld, and Heddesdorf in the Rhineland, corresponded with Schulze-Delitzch, and adapted his methods to rural conditions. To alleviate the effects of a famine in 1864 Raiffeisen founded the Heddesdorf Society for farmers living in the same parish. The Society generated a pool of funds from which loans were made to farmers of trusted standing in the community.[2]

Importantly, neither Schulze-Delitzch nor Raiffeisen saw his work in the guise of Christian charity. Both men were dedicated to the idea of mutual *self*-help. They also recognised that for co-operative credit societies to prosper, participants needed to have a reasonable understanding of financial management. These not-for-profit organisations kept interest rates on loans to a minimum, but they did need to create income to cover operating costs.

The concept of the credit co-operative society was quickly transported from Germany to other countries in Europe. Political economist Luigi Luzzatti, later Prime Minister of Italy, studied the Schulze-Delitzch model on a visit to Germany in 1864. On his return he founded the People's Bank of Milan. Leone Wollemborg (1859–1932) was influenced by Luzzatti and set up Raiffeisen societies in Italian rural and fishing communities. In 1863 Jean Pierre Beluze founded the first French co-operative bank (*crédit au travail*) whilst in Austria People's Banks and Raiffeisen societies proliferated.

By the turn of the century the news of successful credit co-operatives had reached Quebec where Alphonse Desjardins (1854–1920) set up the first North American credit union, La Caisse Populaire de Levis, in 1900. With Desjardin's help, Pierre Jay, Commissioner for Banks in Massachusetts, formed the St Mary's parish credit union in New Hampshire in 1909. Edward Filene (1860–1937), who owned a department store in Boston, was instrumental in pushing through the Massachusetts Credit Union Act in 1919, and the following year he hired a young lawyer Roy Bergengren (1870–1955) to manage the nascent Massachusetts Credit Union Association. In 1932 Bergengren's visit to St Francis Xavier University in Nova Scotia prompted the formation of the Antigonish Movement that had a strong influence upon Australian credit union pioneers. An Australian branch of the Antigonish Movement was established in the 1940s. The Antigonish encouraged co-operative financial activity within a community or parish and pursued social reform through education.[3]

Meanwhile, through Filene and Bergengren's efforts to promote credit unions in the United States, the Credit Union National Association (CUNA) formed in 1934. Two years later the CUNA Mutual Insurance Society was set up to provide life insurance packages, with a separate organisation called the Credit Union Mutual Insurance Society (CUMIS) to provide general insurance. In 1958 CUNA became a worldwide association (CUNA International) and after some restructuring in the 1960s emerged as the World Council of Credit Unions (WOCCU) in 1970.

Australia: the early decades of credit union activity

Information about credit co-operatives filtered from Europe to Australia in the 1840s and 1850s but had no real impact until the turn of the century. The state of Victoria can possibly claim to have had the first credit co-operative in the country. The Co-operative Credit Bank at 131 Flinders Street, Melbourne was registered under the 1890 Provident Societies Act on 14 December 1905; its first manager was Thomas Burke (1870–1949).

Interest in credit co-operatives did not spread much further in Australia until after the Depression. In 1935 the Movement Towards a Christian Social Order, founded by the General Assembly of the Presbyterian Church, invited Dr Toyohiko Kagawa (1888–1960), a Japanese Christian evangelist, to make a tour of Australian cities. Dr Kagawa achieved fame by publishing bestsellers that were translated into English by his American secretary, Helen Topping. The most influential of his books was *Brotherhood Economics*. At his first Australian civic reception, in Brisbane on 12 March 1935, Kagawa appeared in Japanese ceremonial costume and spoke of international peace and monetary reform. He referred to the Rochdale store and Raiffeisen Co-operative Credit Association of Germany to illustrate his ideas. Dr Kagawa's visit led to the formation of the Christian Co-operative Fellowship that in 1939 brought Helen Topping out to Australia. Topping further publicised Kagawa's books and distributed material put out by CUNA and the Antigonish Movement. At Ormond College at the University of Melbourne a Kagawa Group formed under the leadership of Professor H. Maclean. The group printed a pamphlet entitled 'The Co-operative Economy' based on Kagawa's teachings.[4]

From the 1940s, credit unions began to appear right across Australia. The timing was significant. In the post-war decades low to middle income families, migrants, and unmarried persons often had real trouble in obtaining credit from banks. Housing loans were notoriously difficult to secure for persons with limited capital, and customers put up with bad service because years of commitment to the same bank was necessary even to qualify for a mortgage. Recalling these years, people who had little money have described how they dreaded approaching the bank for a loan: 'the interviews [with the bank manager] were demeaning'; 'it was never an easy or pleasant experience for me'. Alternative saving and lending institutions were needed to fill a gap in the market for financial services. Credit unions, along with building societies and friendly societies, were established to fill that gap. For members in the pioneer days of credit unions, belonging to 'the credo' not only helped tide them through periods of financial hardship, it also promoted self-respect and a sense of communal care and wellbeing. Obtaining a loan became possible 'because a group of people didn't first and foremost consider your financial status but many other issues including integrity and needs and simply to give someone a break'.[5] Credit unions began forming in New South Wales (1946), Queensland (1946), South Australia (1949), the Australian Capital Territory (1957), Tasmania (1958), Western Australia (1960), and the Northern Territory (1970).

Three Catholic organisations spearheaded the growth of credit unions around Victoria: the National Catholic Rural Movement, the National Christian Workers Movement, and the Young Christian Workers. Victoria quickly developed a strong tradition of rural parish-based credit unions, even if many of those credit unions never really thrived. Simultaneously, industrial credit unions began to spring up for employees in the Victorian public service, emergency services, manufacturing, non-government administration, media, and postal services. Through publications, conferences, and three-day residential schools held at the Warburton Chalet from 1966 to 1973, links began to develop between representatives of Victorian and interstate credit unions. On 16 September 1966 the Victorian Credit Co-operative Association (VCCA) was founded. It was the start of a decade-long boom in credit union development across the nation. By 1975 there were 748 credit unions in Australia with 910,000 members. The Australian Federation of Credit Unions Limited (AFCUL) formed in 1966, and by 1970 encompassed all state and territory leagues.[6]

Communities and the 'common bond'

Credit unions are identified by their members' 'common bond'. This is the unifying element of association (such as occupation, region of habitation, or place of worship) that all members of the credit union share. Internationally there is considerable variety in the source of the common bond and consequently in the types of community that credit unions serve. Geographic territory of residence is probably the most widespread form of common bond. Another very typical form is that of profession or workplace.

Leon Magree, the first manager of VCCA, has described the way in which, during the 1970s, leaders of the Victorian credit union movement followed a 'set format' for establishing new co-operative financial organisations based on methods used in New South Wales. To push for the formation of a workplace credit union, representatives of VCCA began by writing to the employer:

> On most occasions we would be allowed an interview with the personnel manager and we would explain the steps. If they were interested [they would] call a meeting of their employees at which we would explain what was involved and out of that would arise, in most cases, the actual calling of a formation meeting and the meeting of the statutory requirements as far as the legal registration of the credit society.[7]

Leaders and promoters of the credit union movement in Australia came from a variety of 'blue-collar' and 'white-collar' professional backgrounds. In the twentieth century, the vast majority were men. They included Stan Arnell (from the Australian Broadcasting Commission Staff Association NSW Co-operative Limited), Tom Kelly (from the Railways Staff Credit Union), and Kevin Yates (from the New South Wales Savings and Loans Co-operative Association). The elected boards of credit unions in Australia rarely displayed gender balance until the 1980s and 1990s when more female members began to stand for election.

One of the original principles behind directorship of a credit union (that has now all but disappeared in practice) is that directors should not receive remuneration for their activities on the board. Friedrich Raiffeisen, in his book *The Credit Unions* (first published in 1866 and running to some eight editions), explained:

> What else is public spirit to mean, if not that every individual member of the society be ready to sacrifice in favour of the community? This example must be set at the top. No co-operative society can expect to develop public spirit or to act in the best interest of the community without the example being given by community leaders.

Raiffeisen believed that if people rejected their endless striving 'for earthly goods and pleasures' then the human tendency to become 'ever more greedy' could be quelled. He wrote that by serving in a voluntary capacity 'the members of the executive boards [of credit unions] work with delight [and] this delight produces diligence and perseverance'.[8]

In small credit unions, directors may not be paid for their work on the board but they do receive discretionary reimbursement to help cover out-of-pocket expenses accrued through activities such as attending national conferences for the credit union industry. Similarly, external consultants such as a solicitor and an auditor receive honorariums and retainers. The role of the solicitor is to provide advice relating to the operation and governance of the credit union, to act for the credit union in preparing security documents for loans, and to provide advice to individual members on referral.

Regulatory challenges

Since the early 1990s one of the greatest challenges for the boards of small credit unions in Australia has been to keep pace with continually evolving regulation. During the 1980s credit unions in Victoria, along with building societies, mutuals, and other co-operative organisations, were subject to the Victorian State Government's Co-operation Act. One of the triggers for a fresh wave of legislation affecting non-bank Deposit Taking Institutions (DTI) was the collapse of Moe and District Credit Union Co-operative in December 1989, followed by the collapse of the Pyramid Group of Building Societies and several other small credit unions. These ruinous events occurred in the context of a nation-wide recession that affected Victoria particularly badly.

Under pressure from the Reserve Bank, which refused to intervene in the Pyramid disaster, state and territory governments were compelled to develop nationally consistent prudential standards for DTI. From 1 July 1992 all Australian DTI became subject to the Financial Institutions Scheme administered by the Australian Financial Institutions Commission (AFIC) in Brisbane. AFIC was a national body working through state and territory branches to implement the Financial Institutions Scheme. Whilst the new system was an improvement on the old, it was still burdened by a cumbersome and inefficient structure. For credit unions, the main disadvantage of the Financial Institutions Scheme was that it inhibited competition within the financial system. The outcome of the Wallis Report discussed below was to introduce greater competition for banks and fairer, more efficient regulation.[9]

People within the credit union industry – then, as now – had differing opinions about the most appropriate future direction for credit unions to take. Indeed, in the late 1980s, even the term 'industry' aroused passionate opposition from some members. How were the core principles and democratic running of credit unions (one member, one vote) to be protected in an increasingly sophisticated, profit-oriented financial market? Should credit unions stay small and 'parochial' or merge to achieve growth and economies of scale? At national conferences of directors, managers, and association representatives such issues were fiercely debated. Generational differences were exposed between older credit union pioneers and a new breed of technology-wise professionals with financial management qualifications.

In November 1988, before AFIC was set up, the Australian Federation of Credit Union Leagues/Limited (AFCUL) had launched a program known as Project Renewal, designed to review the governance and management of credit unions. Project Renewal proved to be hugely divisive, within and between state associations, but one of the positive outcomes from it was the formation of the Credit Union Services Corporation (Australia) Limited (CUSCAL).

CUSCAL is an unlisted public company owned by the credit unions that join it. In the early 2000s approximately 80 percent of Australian credit unions belonged to CUSCAL, and many also belong to another umbrella body, the National Credit Union Association Co-operative Limited (NCUA). The role of CUSCAL has three components. First, it serves as an intermediate service provider for its affiliated credit unions enabling them to obtain, and offer to members, products and services. Second, CUSCAL is also a 'banker' to its affiliated credit unions and through the Credit Union Financial Services Australia Limited (CUFSAL), it manages liquidity and compliance issues. Finally CUSCAL acts as a voice for the credit union industry. The directors of CUSCAL are elected by a Membership Council made up of elected representatives from the credit union industry.[10]

In April 1997 the 771-page Wallis Report was released following a national enquiry commissioned by Australian Federal Treasurer Peter Costello and chaired by Stan Wallis. The central thrust of the Wallis Report, which was taken up quickly by the new Labour Government in Britain, was to transfer the supervision of financial institutions to an independent regulator. In Australia that meant abolishing AFIC and placing all bank and non-bank DTIs under the same regulatory body, the Australian Prudential Regulation Authority (APRA). The chief reason that the Reserve Bank was not selected as the regulator was that the Wallis Committee believed 'that for non-bank competitors to thrive, their supervisor must not have a culture which favours banks'. For consumers, the principal benefit of the reform was to reduce the cost of financial products and services. The Report's recommendations enabled credit unions to compete against banks on a level playing field and be judged according to the same standards of capitalisation used to measure prudential strength.[11]

On 1 July 1998 the Federal Government passed the Australian Corporations Act. This Act required each credit union to have an Australian Deposit Taking Institution licence and to conform in every way to the Act's regulations for credit unions concerning operations, ownership, and governance. The document containing the whole of the Corporations Act plus the Banking Act amounts to some 3,200 pages, of which some 2,200 pages relate to credit unions. This is a far cry from the dozen-odd pages of the Corporations Act from the 1980s.

Other legislative developments followed at the start of the new century. On 1 July 2000 the Liberal Government introduced a Goods and Services Tax (GST) which affected credit unions' accounting, business position, and pricing of services. New Harmonised Prudential Standards for Approved Deposit Taking Institutions were introduced by APRA. The Financial Services Reform Act of 2004 required that each credit union hold an Australian Financial Services (AFS) licence in addition to an ADI licence. These licences serve as the legal instrument to ensure each credit union maintains its financial security obligations.

Decline or adaptation in wealthy countries

The relentless increase in regulation has contributed to the decline in the number of Australian credit unions over the past three decades. In the mid 1980s there were 110 credit unions in the state of Victoria and over 600 Australia-wide. By 2005 the numbers had fallen to 38 in Victoria and 160 Australia-wide. For a small credit union, operating with perhaps half a dozen staff and directors working in a largely voluntary capacity, the burden of paperwork is immense.

A similar pattern can be observed in the United States where in 1980 there were 21,465 credit unions but only 11,884 by 1996 – a decline of 45 per cent. The imperatives to adjust to increased regulation, adopt new technology, and reach the volume needed to achieve greater economies of scale and efficiency, have proved most problematic for credit unions with less than US$500,000 in assets. To avoid failure, one very common option has been to merge with another credit union. Between 1990 and 1996, the National Credit Union Administration reported 2,841 mergers, most of them voluntary.[12] Strategic benefits of merging include the ability to reduce overhead costs, purchase new technology, and offer better products and services as well as increased convenience to members, for example through additional branches.

The trend for credit union mergers in Australia and the United States is part of a wider phenomenon known as 'demutualisation'. There are three methods by which demutualisation may take place. These are pure distribution (by which shares that can be traded in a mutual organisation are allocated to members); subscription (by which shares that can be traded are sold to members); and merger/takeover (by which a non-mutual acquirer allocates or sells shares in itself to members of the mutual in exchange for ownership of the mutual). Demutualisation has been shown to disadvantage members financially and the risk of the process being pursued for the motive of wealth expropriation is substantial. To counter demutualisation, yet still achieve the economies of scale necessary for small credit unions to survive, Kevin Davis has suggested various alternatives. One of them is for small credit unions to 'piggy-back' on larger 'parent' ones for the provision of services, a strategy that has worked successfully in community banking initiatives like that of Australia's Bendigo Bank. Equally small credit unions could focus more on facilitating and advising rather than on the provision of finance. The mutual structure of democratic ownership and governance is preserved more easily in small credit unions than in large ones where it can become unwieldy.[13]

Growth and solutions in poor countries

Contraction in the numbers of credit unions in large Western economies has occurred at the same time as the expansion of credit unions in some of the poorest and most conflict-prone parts of the world. Here, too, competition from banks can present difficulties for credit unions, yet there are usually even more pressing practical problems. In Afghanistan a WOCCU project to support credit union development has seen some advances in the negotiation of Shari'a compliant co-operative finance. Branch management is complicated, however, by travel limitations imposed by an uncertain security situation, the difficulty of finding staff with sufficient education, and bureaucratic logjams preventing registration of credit unions.[14]

Marguerite Robinson, in a World Bank study of microfinance, has argued that 'credit unions tend to lend mainly to middle-class salaried borrowers'.[15] Yet as Anna Cora Evans points out Robinson's assertion does not hold true for the case of Sri Lanka where a WOCCU project has helped seventy-two credit unions extend microfinance services to the rural poor. Membership of these credit unions grew by approximately 21 per cent per year in the period 1998–2001, whilst the target of growth in assets above annualised inflation was comfortably achieved. In 2000 the average deposit size per number of deposit accounts in the seventy-two Sri Lankan credit unions was US$58.[16] In Nicaragua, another WOCCU project involving twenty rural credit unions was also designed to meet the demand for microenterprise financial services, providing loans for very small amounts, usually less than US$500.[17] Similarly, in Peru, where around 38 per cent of the population live below a US$2 per day poverty line, studies show that credit unions provide loans, usually less than US$500, to many low and low-middle income households.[18]

Whilst the risk of loan delinquency remains significant in very poor countries, assistance from WOCCU with processes of financial stabilisation has helped to reduce that risk. For example, in Guatemala, delinquency rates were cut from 19 per cent to 7 per cent in the period from 1987 to 1992 for twenty credit unions. In the same period those same twenty credit unions witnessed total asset growth of 126 per cent, total loan growth of 98 per cent, and total deposit growth of 504 per cent. As credit unions in Guatemala have become more competitive, financially independent, and secure, the former shortage of funds for loans has been replaced by excess liquidity with the benefits flowing back to members through competitive rates of return on savings.[19]

Conclusion

Every year since 1948 International Credit Union Day in October has provided an opportunity for members to reflect upon their co-operative history and achievements and to promote the credit union idea around the world. Among the benefits of participating in an international movement, with the World Council as umbrella body, are opportunities for credit union members and professionals to share expertise and experiences. Global networking is illustrated, for example, in the annual World Credit Union Conference, which in 2012 will be held in Poland.[20]

During the nineteenth and twentieth centuries the main activity of credit unions was to assist low and middle income people to overcome credit constraints that limited their investment and enterprising activity. In the twenty-first century it continues to be a challenge for credit unions to increase market penetration among wealthy households, which are more likely to keep savings in banks. Two recent initiatives could make a difference in the United Kingdom and potentially be taken up elsewhere. First, some of the restrictions on credit union operations were loosened in 2012, although it is still too early to judge the effects. Under the new rules, credit unions are now able to pay interest on deposits. Credit union membership is no longer limited to individuals but can now be taken out for organisations such as community or religious groups, local companies, social enterprises, or tenants' associations. A credit union will no longer have to prove that all its members share a 'common bond'; hence, an existing member who moves house to a different geographic region or changes profession would not be classed as 'non-qualifying' and credit unions will be able to extend membership to new groups.[21] The second initiative is the Move Your Money campaign, which began in the United States and has recently reached the United Kingdom. Driven by anti-Wall Street sentiment, this campaign may provide momentum for growing and diversifying membership as disillusioned bank customers seek alternatives to ensure their deposits are used in socially and environmentally responsible ways. 'Credit unions will appeal to many because savings are lent to local people and businesses to benefit the community.'[22]

Endnotes

1 http://www.woccu.org/.

2 F. Raiffeisen, *The Credit Unions* trans. K. Engelmann 8 ed. (Neuwied on the Rhine, 1970); D. S. Tucker, *The Evolution of People's Banks* (New York, 1922); M. A. Kanther, *Victor Aimé Huber: Sozialreformer und Wegbereiter der sozialen Wohnungswirtschaft* (Berlin, 2000).

3 G. Lewis, *People Before Profit: The Credit Union Movement in Australia* (Kent Town, 1996), pp. xx–xxiii, 11. On the Antigonish Movement see M. M. Coady, *Masters of Their Own Destiny: The Story of the Antigonish Movement of Adult Education Through Economic Co-operation* (New York, 1939); I. Delaney, *By Their Own Hands: A Fieldworker's Account of the Antigonish Movement* (Nova Scotia, 1985).

4 T. Kagawa, *Brotherhood Economics* (New York, 1936); Lewis, *People Before Profit*, pp. 2–10.

5 T. Kelly, *Memories and Recollections* (Haymarket, 2002), pp. 25, 32; S. Pepper, *Giving Credit to the People: A History of the Credit Co-operative Movement in Victoria* (Windsor, 1985), pp. 8–9.

6 Lewis, *People Before Profit*, pp. xxiii, ch. 13; Pepper, *Giving Credit*, ch. 2–7; H. R. Crapp and M. T. Skully, *Credit Unions for Australians* (Sydney, 1985). There are many histories of single credit unions. See for example: B. Carroll, *Sirocredit: The First 40 Years 1957–1997* (Melbourne, 1997); D. Cash, *Apples for Teachers: A History of VTU Credit Union Co-operative Limited* (Camberwell, 1994); G. Early, *The History of Queensland Police Credit Union 1964–2004* Available on CD-Rom (Brisbane, 2004).

7 Lewis, *People Before Profit*, p. 133.

8 Raiffeisen, *The Credit Unions*, pp. 57–8.

9 C. Gration and B. Livesey, *The Wallis Report: Credit Unions and Wallis* (Sydney, 1998), pp. 2, 5; Lewis, *People Before Profit*, p. 316.

10 Lewis, *People Before Profit*, pp. 298–9; http://www.cuscal.com.au.

11 Gration and Livesey, *The Wallis Report*, pp. 7–9.

12 S. W. Rick, *Credit Union Restructuring: A Response to the Developments in the International Finance Industry* (Madison, 1998), p. 3.

13 K. T. Davis, 'Demutualization and Credit Unions' *Managerial Finance* 31:11 (2005), 6–25; K. T. Davis, 'Credit Union Governance and Survival of the Co-operative Form' *Journal of Financial Services Research* 19:2–3 (2001), 197–210.

14 R. Wieland, *Supporting Credit Union Development in Afghanistan: An Overview of Issues Important to the Development of Shari'a Compliant Co-operative Finance* (Madison, 2007).

15 M. S. Robinson, *The Microfinance Revolution: Sustainable Finance for the Poor* (Washington, 2001), p. 92.

16 A. C. Evans, *Strengthening Credit Unions in Sri Lanka: Dispelling the Middle Class Myth* (Madison, 2001), pp. 1, 4

17 C. Mahon, *Nicaragua Financial Services to Microentrepreneurs: A Study of Rural Credit Unions* (Madison, 1999).

18 R. Sundaram-Stukel, *Evaluating the Role of Peruvian Credit Unions: A Case Study of Eight Credit Unions* (Madison, 2006). See also S. Grell Aazarr and M. Webster, *Rural Outreach through Group Methodologies. Case Studies in Mexico, Peru and the Philippines* (Madison, 2009).

19 D. C. Richardson, B. L. Lennon, and B. A. Branch, *Credit Unions Retooled: A Road Map for Financial Stabilization. Experiences from the Guatemalan Co-operative Strengthening Project* (Madison, 1993).

20 On credit unions in Poland, see A. C. Evans and D. C. Richardson, *Polish Credit Union Development: Building a Sustainable Network of Financial Services to Serve Low-Income Masses* (Madison, 1999).

21 'Shake-up gives credit unions a vital shot in the arm' *The Guardian* 7 January 2012.

22 'Are you ethical enough to join the movement?' *The Guardian* 12 May 2012, http://www.moveyourmoney.org.uk and http://www.findyourcreditunion.co.uk.

The development of co-operatives in Slovenia

Tony O'Rourke

3. The development of co-operatives in Slovenia

Tony O'Rourke

Introduction

At the outbreak of World War I in 1914, the territories of modern Slovenia were aptly named the 'Lands of the Co-operators', given that the notions of F. W. Raiffeisen and of the international co-operative movement had become eagerly accepted and promoted by Slovene small-scale farmers, craftsmen, intellectuals and populist politicians. It is also noteworthy that some of the decentralised concepts of co-operation, with a reliance on subsidiarity, also had a powerful part to play in the development of Yugoslavia's unique brand of self-managed socialism and the concept of 'social-ownership'. Indeed, one of the great ironies of the transitional period in post-1991 Slovenia, is that it would have made more economic sense to have transformed a large number of viable socially-owned enterprises back into co-operatives, than to have taken the complex path of transformation into limited companies.

Historical context

The territory which constitutes the current state of Slovenia was acquired by the Habsburg dynasty during the period from 1278–1456 and formed part of the Holy Roman Empire. Following the dissolution of the Empire in 1806, the Slovenian territories formed part of the Austrian Empire. On the collapse of the Austro-Hungarian state in 1918, Slovenia was effectively divided between Italy and the new Kingdom of Yugoslavia. From 1945, and the seizure of power in Slovenia by the Communist-led partisan organisation, Slovenia became a constituent republic within the Socialist Federative Republic of Yugoslavia (SFRJ) until the effective dissolution of the federal state in 1991. Following the ten-day war against Yugoslavia in June 1991, Slovenia achieved independence and international recognition in January 1992. In 2004 Slovenia was admitted to the European Union, the first and so far only former Yugoslav republic to gain membership.

Situation prior to 1918

In general terms, the most rapid growth of co-operative organisations came in those geographic regions where there were mixed populations of Slovene and German speakers. This was particularly the case in towns and villages on the 'linguistic frontier' like Ljutomer (1871), Ormož (1876) and Celje (1881). A major stimulus was the agricultural depression which swept the Habsburg lands during the 1860s and 1870s. The first Slovenian co-operative was the Society for Assistance to Craftsmen and Artisans in Ljubljana[1] which was established in 1856, following the foundation of the first credit union in 1851.[2] Primarily the movement began in urban centres which tended to be dominated by the German-Austrian mercantile classes as opposed to Slovene artisans and craftsmen. Essentially, it began as an instance of Slovenes seeking greater economic independence and devolution of powers from the more centralising influence of the German-Austrians. This also coincided with the rise of greater linguistic consciousness in the development of Slovene as a language of literature from being the language of rural peasants.

The economic situation in the early part of the twentieth century energised the large number of co-operatives of all types to form a national organisation to conduct the legally obligatory financial audits. Chief among those was the main Catholic co-operative central organisation, Zadruzna zveza v Ljubljani. However, in the Gorica duchy (Trst/Trieste and Videm/Udine) a similar organisation was established (Zveza goriskih gospodarskih zadrug in drustev v Gorici) for the Slovene speakers among the very mixed population of Germans, Italians and Friuls.

Major promoters of the co-operative idea in the towns and cities were the brothers Jože and Mihael Vošnjak. Much of their main impetus was in the formation of credit unions and other types of co-operative banks; in 1883, Mihael Vošnjak formed the first co-operative federation – the Union of Slovenian Loan Societies in Celje[3] and the first general co-operative union was formed in 1899. As a result by 1914, 12,240 credit cooperatives had been formed in the Slovenian lands of which 65 per cent were for ethnic-Slovenes. The first law on co-operatives was enacted by the Austrian legislature in 1873, and subsequently updated in 1903.[4]

However, more importantly during the latter two decades of the nineteenth century – inspired by the growth of urban co-operatives – there was a strong development of what we may describe as rural consumer co-operatives, as well as production and basic distributive/marketing co-operatives. A major force in this development was the Catholic Church, given that at this time some 95 per cent of ethnic-Slovenes were Catholic. The latter part of the nineteenth century was also a period of intensive disruption in the rural regions as many of the larger farms, controlled by German-Austrian nobility, suffered economic hardship. The majority of the parish priests in rural areas were ethnic-Slovene and they began to take a leading role in the formation of agricultural co-operatives. Probably the most important articulator of the Slovene rural co-operative movement was Rev. Dr Janez Krek (1865–1917), a Catholic priest from the Ribnica region of Lower Carniola. Whilst undertaking his doctorate at the University of Vienna, he had become greatly influenced by the Christian Social Movement of Dr Karl Lueger.[5] He became increasingly concerned at the anti-social effects of capitalism and the anti-religious concept of Marxism. As a result he was instrumental in forming 481 rural co-operative organisations to gain economic freedom for Slovene peasants from the constrictions of the Austrian landed nobility, whilst using the concepts of the German Friedrich Wilhelm Raiffeisen (1818–88) as a model.[6]

The period of the Kingdom of Yugoslavia 1920–45

One of the main effects of the dismemberment of the Slovene lands, was that 360 ethnic-Slovene owned co-operatives were left in Italy and Austria. Further, the decision of the Belgrade authorities in 1919 to convert forcibly all Austro-Hungarian krone accounts and currency holdings into Yugoslav dinars led to a surge in inflation and a collapse of confidence in the new currency. The market for agricultural products fell to new lows as Slovenes lost the former common market that existed within the empire. However, these economic problems created a new driver for the existing co-operatives and strong growth in the consumer co-operative movement. In particular, the growth of co-operatives with a differing social model to that promoted by the Slovene Peoples' Party (SLS) were exemplified in the formation of ZGZ, a Ljubljana based co-operative federation for social-democrat co-operatives with no specific religious affiliation.

Although the position of the co-operatives was assisted by the formation of a central co-operative bank, they were affected by the world depression in the 1930s. Further, in those areas under Italian control, massive anti-Slovene ethnic and linguistic discrimination resulted in the removal of Slovene academics, business professionals, doctors and teachers to other regions of Italy and their replacement by ethnic-Italians from Sicily and the south. In addition there was a virulent forced programme of Italianisation, especially in the populous coastal littoral and Vipava Valley, headed by radical elements within the Italian Fascist Party. In all parts of the Slovene lands, rural and urban regions were greatly affected by strong levels of emigration to the US. It was not until 1937 – eventually recognising the dire economic situation – the Yugoslav state passed unified co-operative legislation by adopting an Act on Economic Co-operatives. This permitted a group of at least ten physical or legal persons to establish a co-operative for the purpose of mutual economic or social assistance and with profits distributed among the members. By the end of the 1930s the majority of co-operatives in Slovenia were related to horticulture, wood processing, dairy production or viniculture, with supporting credit co-operatives.

The Nazi attack on Slovenia and its dismemberment between Italy, Germany and Hungary resulted in differing treatments of the co-operatives. In the areas under German control, they were assimilated in Austrian networks and the credit co-operatives were incorporated into the Vienna-based Raiffeisenkasse and Volksbank network. In the area under Italian control the Rome authorities set up a co-operatives institute to audit operations but left the co-operative network to its own devices. By November 1944, with a large part of the country under the control of the Slovenian partisan army OF, the effective government, the Slovenian National Liberation Committee (SNOS) created the organisation IZOS (*Iniciativni zadruzni odbor Slovenije*), to protect the property of co-operatives during the difficult transitionary period between the withdrawal of the Axis forces and the confusion deciding the line of control between Soviet and British forces along the Alps.

The period of Socialism 1945–91

Effectively the co-operatives returned to the state in which they existed in 1941, but over the following decade a strong restructuring of the entire economic system took place. Thus by 1956, there were only 695 co-operatives left, which had financial reporting lines to the central co-operative agricultural bank (ZKB – *Slovenska zadruzna kmetijska banka*) and other reporting links to the main republic co-operative organisation, GzzS (main association for Slovenian co-operatives – *Glavna zadruzna zveza Slovenije*). A major component of the initial policy of Tito was a programme of agrarian reform. Initially this followed the Soviet example and was based on collectivisation of large agricultural estates into 'kombinats'. The system did allow the provision of co-operative ownership, but as a lower level of the socialist agrarian system; this did however preserve a number of co-operative organisations, although the credit co-operatives were wound up as part of the socialisation of the banking system.

Unfortunately, the smaller farm co-operatives tended to be as economically unsuccessful[7] as the collective farms and following the break with Stalin on 28 June 1948, Tito promoted a new policy to deal with the rural economic structure. The main proponent of a greater devolved system was chief theoretician of the League of Communists of Yugoslavia[8], Edvard Kardelj, the Slovene intellectual and Tito's closest confident, who was greatly influenced by Veber's concepts of decentralisation and subsidiarity. Kardelj's view was that any developing system of agriculture must be based on the correct balance of power between the centre and the local system. Kardelj saw the system as practised in the Comecon countries (that is, the USSR and the Eastern European satellites) as being a form of state capitalism, which he wished to avoid in Yugoslavia. His objective was to transfer the state collectives into large scale co-operatives as part of the shift towards 'socialist self-management' and 'social ownership'. Kardelj's own experiences in Slovenia had convinced him that leaving rural peasants to develop their own systems would lead to exploitation by the better-off and more educated peasants, whilst the Soviet system was another element of capitalism, albeit under state control.

The result was that by the end of 1956, the Slovenian 695 agrarian co-operatives had approximately 126,000 members (in a country with a population of less than two million). Unfortunately, new regulations on agrarian co-operatives, developed between 1958 and 1965 by the government of the Socialist Republic of Slovenia, placed these organisations on the same level as social enterprises. This was due to the development of policies at a federal level which regarded the large, socially-owned agricultural kombinats as the prime movers in agricultural development. Generally, these were not particularly important in Slovenia, which due to its advanced industrial and technology base was mainly focused on forestry, agri-food, viniculture and small-scale agriculture. Thus a policy intended for other republics which had large-scale agri-business developments on former huge estates (for example, as in Vojvodina) was not relevant in Slovenia, where land holdings were normally around eight hectares. Many rural units – particularly wine growing – were operated by part-time farmers who held full-time jobs in local factories and agri-industries.

Additionally, part of the overall policy was to create a high degree of integration between local co-operative unions at the level of 'local self-government'[9] which were administratively merged with the local chambers of economy[10], while the business co-operative unions were transformed into non-co-operative enterprises. There was a degree of tension regarding the forests, which prior to 1941 had been predominantly in the ownership of the church, religious orders and noble families. Forests were nationalised in 1946[11] and the farmers' co-operatives had to allow control of forests to special forestry management units.[12] Many of the forestry holdings were allocated to small associations of rural farmers and smallholders, some of whom had worked these properties as tenants of the church and the nobility. This was followed by a significant process of merging the larger farm co-operatives and the creation of agro-industry processing plants which were constituted as socially-owned enterprises.[13] By 1965, there were only seventy eight agro-co-operatives with 48,713 members in Slovenia.

It became clear by the 1970s, that in Slovenia, whilst the transformation and merger of the larger co-ops into socially-owned enterprises was successful to a degree in the more production focused activities (for example, meat processing, large scale wine production), the nature of what was predominantly an Alpine agricultural system, controlled by highly conservative and deeply religious small-holders was inimical to the high degree of mechanisation emerging in Slovenia at that time. The larger industries, for example, were highly export oriented – prime examples are Gorenje, the manufacturer of white domestic goods, TAM the producer of buses and lorries and the electronics company Iskra, which produced the iconic telephone. However, this led to a situation of concern regarding the smaller private farmers and their strong relationship with co-operative organisations. In 1969, legislation was introduced which created a special 'savings and credit system' for agricultural co-operatives and forestry association. These organisations were responsible for collecting savings from small productive units as well as granting credits for the modernisation of private farms. The republic government supported these activities of the sections by guaranteeing the savings deposits of producers and small investors and also subsidising interest rates for credits through a soft loan programme.

Situation following independence in 1991

Although the independence of the Slovenian state from the Socialist Federal Republic of Yugoslavia created a general model of moving towards a market-oriented economic system, especially with the transformation of socially-owned enterprises into shareholder-owned companies, the Slovenian model of the free market has proved to be more aligned to the Franco-German social market model.

This has tended to explain why Slovenia has a far lower level of social exclusion and social disparity than other former socialist countries. In general it has minimised the level of socio-economic disruption that has occurred in many so-called transition economies by retaining important industries under state control or majority state shareholder ownership[14], by limiting high levels of unemployment and by creating a fairly equitable taxation system that has ensured that probably two-thirds of the inhabitants can be described as broadly middle-income.

The problem has been that the system which has developed has been more inclined towards a careful balance between the centralised state and the private sector; as a result, co-operatives have been squeezed between these two competing demands. In part this is due to the fact that in many parts of the private sector, co-operatives are seen as inherently socialist. Yet this is a serious misapprehension given that the origins of Slovenian co-operative and mutual institutions derives from the nineteenth century nationalist-Catholic-agrarian consensus which then could find no distinctive place either in the highly centralist first Yugoslav state nor indeed in the second decentralised Yugoslav state. At the same time, it has become very evident that in the agri-business sector, agri-tourism, urban tourism, crafts and small scale business sectors, there is a huge demand for mutual organisations to collect, represent and finance micro and small scale entrepreneurs.

Despite this, there was a degree of recognition that the co-operative movement did require a degree of help and support, and this was made manifest by a large number of external EU-funded agencies which engaged with the small business sector through the period from 1992–2004. The Co-operative Act of 1992[15] has been relatively successful in assisting a transformation process for co-operatives to adapt to the new economy and allowed the restitution of former co-operative property.[16]

Part of the problem is that co-operatives in Slovenia have tended to be regarded as primarily rural organisations, connected to the agri-business environment. Despite the fact that the major impact in the mid-nineteenth century was in the creation of urban co-operatives, the main co-operative union ZZS, which was re-founded in 1972[17], has tended to gravitate into the food and agriculture industries, whilst retaining a commanding presence as the facilitator of all Slovenian co-operatives.

The current environment

There are in effect at the current time three sectors within the Slovenian co-operative movement:

- Agriculture & related agri-business (which encompasses a range of services such as production, marketing and distribution);
- Tourism co-operatives (originally deriving from rural tourism developments[18] but now including not-for-profit mutual associations in all areas of tourism);
- Wholesale & retail co-operatives.

In general, Slovenian co-operatives no longer have that role in the economy, which they held in the 1890–1910 and 1920–35 periods. In the main, their role has been to assist micro and smaller economic actors to gain benefit from pooling resources. A major problem has been that many small businesses have regarded co-operatives and any forms of collective economic entity as a form of socialism; inevitably they have a blindness about the values of entrepreneur associations and mutual organisations which by their collective concept are able to access markets and services which are not available to individual entrepreneurs excepting at great cost.

It is clear that in the mid-1990s, the Slovenian government was keen to see the growth of co-operative organisations – if only to mitigate against the power of the former socially-owned companies as well as the successful private companies. Unfortunately the introduction of a number of new co-operatives in that period failed to provide any substantive benefit; the primary problem was that the state tended to use them as a facility for job creation or for saving firms which had deep structural problems. There is doubt that transferring failing or marginally successful companies to a co-operative model will of itself create corporate or institutional viability.

However, during the last decade the government has taken a fresher and more pragmatic approach to co-operative and mutual models; importantly it has seen them as being part of the competitive economy rather than as some archaic organism to be used as the business model of the last resort.[19]

According to the most recent data of the central co-operative organisation ZZS (*Zadruzna Zveza Slovenije*) as at the end of 2008, there were eighty co-operatives which were members of the ZZS and 3,283 individual members. Within ZZS, there were four subsidiary companies. Approximately 27 per cent are engaged in agriculture-forest and related activities, 21 per cent in consumer retailing and 21 per cent in business organisation/support. The largest number of co-operatives (by membership and turnover) are to be found in Dolensko belakrajina (SE Slovenia along frontier with Croatia), Celjska (central region around the city of Celje), Gorenjska (Alpine region of N Slovenia) and Severne Primorska (Gorica region).

Agricultural system

The March 1992 Act on Co-operatives was a response to the crisis in the Slovenian agricultural sector due to the loss of the Yugoslav market. Slovenia had always been a primary producer of high value processed food products (particularly meat, fruit juices and dairy), which in general met the quality standards required in neighbouring Austria and Germany, although exports to those markets were only a lesser part of the total. However, the time lapse in re-orienting these high value exports towards EU countries caused a crisis in the agricultural sector between 1990 (when the Serbian embargo on Slovenian products was introduced) and the mid-1990s when trade agreements with EU member states began to become effective.

The agri-business/agro-industrial sector in Slovenia is very much conditioned by the geographic and demographic environment. Apart from the coastal region and the adjoining Vipava Valley which have a Mediterranean nature, the Slovenian agricultural landscape is primarily Alpine or sub-Alpine, interspersed with valley regions. Half of the land territory of the state (10,000 km^2) is covered with forest, of the remaining area at least 5,000 km^2 is grassland. The effect is that almost three-quarters of the available agricultural land has limited productive capacity due to the terrain (mountains, forest or a karstic landscape which is inhospitable to productive capacity). Land ownership in the productive areas tends to be fragmented, one of the reasons why the socialisation of land in the 1946–53 period was a huge failure. There are a large number of small farms, with the majority of owners deriving their main income from non-agricultural activity. This situation was augmented by Tito's policy of moving industrial production from cities into rural areas as a means of providing autonomous industrial production in the event of an attack by the Soviet Union.[20] It also retained that nineteenth century Habsburg Empire concept of the industrial worker returning home in the middle of the afternoon to till his vegetables or vines.

According to current estimates the majority of agricultural co-operatives are concerned with animal husbandry (cattle, aquaculture and poultry raising), followed by cultivation of fields and meadows (vegetables, fruit and cattle feed). The co-operatives have a significant share in the production of milk, meat, sugar beet and vegetables. There are a number of successful larger co-operatives active in viticulture and meat processing, such as KZ Metlika, which is not only a production and processing co-operative, but is also active in wholesaling through a national network of sales centres. However, co-operatives are only active in 10 per cent of production of the large milk and dairy product industry.

Agricultural co-operatives include those active in forestry activity, wood and wood derivatives processing. The 74 per cent of forests in Slovenia that are not in public ownership (by the state or *občine*), are in private or co-operative ownership – the latter account for about 35 per cent of those engaged in forestry. The largest private owner is the Catholic Archdiocese of Ljubljana[21], whose ownership was restored following the process of de-nationalisation.

Co-operative Union of Slovenia

Under the terms of the 1992 co-operatives legislation, the union became a voluntary association of agricultural, agri-business, tourism, food industry and forestry co-operatives at a national level. The main objective of ZZS is to promote and support the interests of its members.

ZZS has had a major impact on the re-invigoration of the co-operative sector; it has been an active participant in the reconstruction of the co-operative bank (Dezelna banka Slovenije), promoter of a number of rural development tourism co-operatives and the organisation of wholesale and retail operations. However, an attempt to break into the insurance sector with the launch of a Co-operative Insurance Society was doomed to failure given the massive influence of the former socially-owned insurer Zavarovalnica Triglav, which under effective state ownership, has over 40 per cent of the total insurance market.

ZZS is now faced with creating a modern co-operative organisation, with a clear focus on the education and training of member organisations. Co-operative education has been sadly lacking in Slovenia since 1941, and there is a general antipathy towards collective organisations.

Importantly, ZZS is finding that its responsibilities and skills in auditing member co-operatives, a function in which is excelled in the period from 1903–61, is now in a higher level of demand.

Co-operative banks & credit institutions

Although this essay is primarily concerned with consumer-oriented co-operative organisations, the development and growth of the co-operative credit institutions and their current status and relationship to other co-operative enterprises in Slovenia is a matter of significant interest. As will have been seen from the opening comments on the situation in the Slovene crown lands prior to 1918, the relationship between agricultural co-operatives, consumer co-operatives and other mutual organisations was closely connected to the growth of the credit institutions (called *rajfajznovke* in Slovene as a translation of the German *raiffeisen*) and the subsequent organisation of central co-operative financial organisations.

The *rajfajznovke*, as with consumer or production co-operatives, tended to be founded by coalitions of important interests – the Slovene intelligentsia (for example, writers, poets, teachers), merchants, larger farmers, activists in the SLS and clergy. Mihael Vošnjak, for example, was the instigator of the first Slovene co-operative credit association, *Zveza slovenskih posojilnic*, in Celje, which was established on 23 January 1883.

A renewed agricultural depression during the early years of the twentieth century was further instrumental in driving the founding of new credit unions and in the organisation of stronger regional groupings of credit co-operatives. The fact that the *rajfajznovke* alone expanded from 160 in 1903 to 1,005 in 1911, is a testimony to that environment.

Following the integration of Slovenia into the new Yugoslav state, the larger credit unions converted into classical commercial banks particularly those based in the larger cities like Ljubljana, Celje and Maribor. However, these banks were all nationalised during the socialist era with the 1946 law on nationalisation of private assets[22] which transferred all banking facilities into the control of the SR governments.[23] The authorities created a special branch of Zadruzna in kmetijska banka (ZKB – the agricultural cooperative bank) to take on supervision and monitoring of all co-operative institutions.

It was not until 1954 that the effects of Edvard Kardelj's introduction of social ownership and self-management became more obvious in the credit co-operative sector of Slovenia. In that year the first post-war co-operative saving institution was established in Kranj with the task of collecting savings from the rural population, to provide loans. Within a year, there were twelve co-operative bank saving institutions, and this grew to a system of 105 institutions by December 1960.

However despite this success, wider federal economic and commercial policies were more focused on traditional commercial banks which tended to be under the control of major socially-owned companies. The 1961 Federal Banking Act abolished all co-operative saving banks and their affiliated associations, and transferred their activities into the National Bank of Yugoslavia (NBJ), the republic central banks and the major commercial banks. In the agricultural sector, these banks tended to be controlled by the large socially-owned agri-business concerns. By 1965 the number of agricultural credit co-operatives in Slovenia had fallen to seventy eight. Yet this situation was untenable, particularly as a result of the food shortage crisis that occurred in the mid-1960s. This led to the reformation of *Slovenska zadruzna kmetijska banka* (ZKB), the central bank of the agricultural co-operatives and *Zveza hranilno-kreditnih sluzb Slovenije* (ZHKS), an organisation representing rural credit and savings co-operatives. In 1990 steps were initiated by the republic national bank, Banka Slovenije, (which was to become the central bank of the newly independent state) to create a combined financial institution for the co-operative sector, with its main emphasis on agri-business and food chain activities. The majority of the assets and staff of KHKS were transferred to ZKB, as this move was recognised as being of critical importance to the agricultural and agri-industry sector, especially with EU membership in 2004. As a result the banking assets of ZHKS, together with several local Slovenian co-operative savings banks[24] were transferred into the new agricultural bank which became Dezelna banka Slovenije to focus on retail banking, small and micro-sized enterprises, farmers co-operatives and the agro-foods sector.

The bank has now had over two decades of successful activity, and is now able to provide a full range of banking services which were not previously allowed to the credit co-operatives and credit institutions. The agricultural co-operatives remain major owners of the bank, along with the Slovenian state pension, disability insurance and restitution funds. Importantly, the bank now has a national network of branches in all major urban centres, which given the relatively small size of Slovenia means that these centres are easily accessible by the rural community.

Impact of co-operatives through the legal structure

It is clear that the 1992 legislation provided a methodology to began to return co-operatives back to their traditional roots in Slovenian society – in other words before the experiments with the different forms of South Slav unification began in 1918. The legislation[25] makes clear that the act on co-operatives[26] regulates the legal status of co-operatives as a part of the Slovenian enterprise law.[27]

The law defines a co-operative as an organisation with an undefined number of members, whose purpose is to enhance the economic benefits of those members. It is based on voluntarism in terms of accession and exit, an equal level of cooperation, and equality in management. It is thus formatted on the concept of economic and social solidarity, under the raiffeissen principles.

A co-operative may be established by at least three natural or legal persons, who sign an act of formation. Economic solidarity insists that members contribute to the performance of the mutual through their economic stake, but grants all members an equal vote. The purpose of a co-operative is not-for-profit, but as a form of socio-economic assistance, this also implies that the costs of mutuality must be met.

Slovenian co-operatives operate on the basis that the major organ of authority is the assembly (*obni zbor*). This agrees all functioning rules, accounting and auditing, appointment of executive bodies and executive posts and financial transactions. Co-operatives are also required to appoint a president, a supervisory board and an auditor. Where there are more than ten legal or physical persons as members, the co-operative must also appoint an executive/management board.

Conclusions

The Slovenian co-operative movement, whilst developing in its structure from the Austrian and German mutual co-operative organisations, was primarily an expression of the Slovene national character and of the unique features of the Slovenian rural and urban economy in the last half of the nineteenth century. There is also little doubt that it was profoundly influenced by the Christian Social philosophy paramount at that time in the ethnic-Slovene middle classes. In a sense, this sense of ethnic and social solidarity – competing against the spirit of capitalism and socialism – would ensure that after 1945, and the victory of the Titoist partisans, it would find it hard to remain and to endure.

Essentially, it is probably the influence of Edvard Kardelj, and his relentless pursuit of a self-managed, socially-owned, devolved economy, that allowed the Slovenian co-operatives to continue through the Socialist era. Unfortunately, that ability to survive during the period of socialism was undoubtedly the cause of its decline in the immediate period following independence. Any form of collectivism or mutual action was seen as tainted with socialism and further linked to the Yugoslav idea. In a small country which successfully withstood and resisted the first onslaught of the Milošević military machine, the connection to the Titoist past was both suspect and potentially unpatriotic.

As a result, co-operatives became consigned to a rural domain, institutions which assisted small-scale rural farmers to collaborate, but which would not have any significant socio-economic role. Even at the financial sector level, the desire of the financial industry regulator to secure uniformity of structure drove the central co-operative financial organisation into the role of a joint stock bank, albeit that the largest shareholders were agri-food co-operatives.

Sadly, in agri-tourism, environmental, sustainable and heritage tourism, a sector in which Slovenia excels, the ability to use co-operatives as a methodology to bring together individial entrepreneurs has in general been unsuccessful. Despite the fact that Slovenia has been a shining example of the social market – as opposed to the free market – there remains a strong disincentive from small scale entrepreneurs to co-operate meaningfully and profitably.

In a sense, the famed land of the co-operators[28], has become in the micro and small enterprise sector, a shining example of un-cooperation. It remains to see whether the current economic crisis may stimulate greater willingness for individuals to co-operate, driven by the same spirit that occurred throughout the period from 1850–1941.

Endnotes

1. F Avsec, *Agricultural Co-operatives in the Republic of Slovenia* (Geneva, 1994).
2. R Čuješ, *Slovenia: Land of the Cooperators* (Ontario, 1984).
3. F Avsec, *Agricultural Co-operatives*.
4. European Commission Directive 2003/72/EC 'National Implementation Report on Slovenia', supplementing the Statute for a European Cooperative Society (Bruxelles, 2006).
5. Fr Krek had a significant influence on the Slovene philosopher Franc Veber, whose ideas about finding a middle way between capitalism and state-centralised socialism had a powerful influence on the Slovene Communist theoretician Edvard Kardelj. Kardelj, who remained Tito's closest confident after the defection of the Montenegrin Đilas and the expulsion from the party of the Serb Ranković was instrumental in shifting Tito's communism towards a decentralised, autonomous model.
6. Apart from his foundation of the SLS, Fr Krek also founded the Labour Association (*Strokovna zveza*) which remained the biggest trades union in the Slovenian lands until 1941. As the Habsburg state unravelled in 1917–18, Krek became the main proponent of a Slovene-Croat kingdom within a federated Empire, but he died before his idea was superseded by the Serbian takeover of Slovenia and Croatia in 1919.
7. Avsec, *Agricultural Co-operatives in the Republic of Slovenia*.
8. ZKJ – Zveza komunistov Jugoslavije; this was the federal party which was primarily concerned with the Federal Secretariats for foreign affairs, defence, ideology, security, overall economic and monetary system management, subject to the overall control of President Tito. Management of co-operatives and organisation of business and economic activity was a primary responsibility of the republican Leagues of Communists and the republic governments.
9. Municipalities or communes which have the Slovene name *'občina'*.
10. *gospordarska zbornica*.
11. Under the Jajce degree of AVNOJ, all lands and property owned by Austrians, Germans or addition persons who collaborated with the occupation forces was confiscated rather than nationalised. This caused significant problems in the 'de-nationalisation' process, which returned forests and other land to the church. Eventually, Slovenia ignored the AVNOJ decisions and property was returned to former Austrian families or their descendants.
12. Slovenia's forests cover 58 per cent of the national territory, placing Slovenia after Sweden and Finland as the most afforested countries in the European Union. Before 1954, the majority of forests were owned by the Catholic Church.
13. 'Social-ownership', as formulated by Edvard Kardelj, was an enterprise jointly owned by workers and management, which had the ability to share profits, place profits into reserve or invest profits in other concerns.
14. The Capital Assets Management Agency is a holding agency for the Slovenian state's extensive interests in banks and enterprises. Apart from direct ownership of 40 per cent of the banking equity – through Nova Ljubljanaska banka and Nova Kreditna banka Maribor, the state also has significant indirect holdings (often amounting to 15 per cent of private companies equity) through the pension fund (KAD – *Kapitalska družba*) and restitution fund (SOD – *Slovenije Odskodninska Druzba*).
15. Subsequently amended in 1993, 1994 and 1996.
16. www.zadruzna-zveza.si
17. ZZS (*Zadružna zveza Slovenije*) was constituted under the Act on Farmers' Associations.
18. This includes farm tourism (accommodation and restaurants) as well as wine and heritage tourism.
19. www.zadruzna-zveza.si
20. This was similar to the Swedish-style policy of locating local territorial defence units (TO) in a multitude of decentralised bases. During the ten-day war in 1991 this was a major advantage for the TO as they were able to utilise guerilla-style tactics and bottle up the more heavily armed JNA in their barracks.
21. Ecclesiastical ownership of forests dates back to the medieval times when monastic communities were freuquently founded in forests. In 1946, the majority of church property was seized by the state.
22. *Zakon o nacionalizaciji zasebnih gospodarskih podjetij*.
23. *Socialistična republika*.
24. *Hranilno- kreditna sluzba KG Kocevje, Hranilno-kreditna sluzba Ljutomercan, Hranilnica in posojilnica KGP Kocevske* and smaller co-operative credit institutions in Zalec, Domzale, Lendava and Sostanj.
25. www.zadruzna-zveza.si
26. *Zakon o zadrugah*, Official Gazette of the Republic of Slovenia, 13/1992, 7/1993, 22/1994, 35/1996 and 31/2000.
27. European Commission Directive 2003/72/EC 'National Implementation Report on Slovenia', supplementing the Statute for a European Cooperative Society with regard to the involvement of employees (Bruxelles, 2006).
28. R. Čuješ, *Slovenia: Land of the Cooperators* (Ontario, 1984).

Sustaining the co-operative approach in an era of change: a case study from Cork, Ireland

Olive McCarthy and Michael Ward

4. Sustaining the co-operative approach in an era of change: a case study from Cork, Ireland

Olive McCarthy and Michael Ward

Introduction

For more than a century, farmers in Cork have organised themselves for agricultural and dairy purposes into eight co-operatives of varying size and production and marketing complexity. They have pursued a variety of different strategies in terms of serving their members. One of the eight co-operatives, now one of Ireland's largest commodity manufacturers, evolved out of an amalgamation process but unlike larger co-operatives elsewhere in Ireland remained reasonably steadfast in traditional ways of co-operative working. Four other small co-operatives took a decision to remain independent, reaping the benefits of smallness where appropriate, but using a federal approach to achieve economies of scale. Another co-operative with a relatively small own-base of milk suppliers and shareholders decided to grow and achieve economies by investing in a modern plant and buying in additional milk surplus to the requirements of larger neighbouring societies adjacent to Cork. Of the remaining two co-operatives, one exited direct milk processing and focused on assembling their members' milk which is sold directly to a privately owned processor of luxury consumer food products. The other co-operative continues to process traditional products such as milk and casein for small niche markets.

This case study will analyse the factors that resulted in the adoption of these varying strategies such as historical background and original purpose, local community context, membership, shareholding and control, capitalisation, and the role of co-operative leadership. The analysis will be set in the context of the business and policy environment such as the EU milk super-levy and declining numbers of farmers partly as a result of an over-reliance on off-farm jobs in vulnerable sectors at the turn of the twenty-first century.

The case study will also explore the relative success of these varying approaches and point to the achievement of maintaining co-operative control in most cases. Nevertheless, weaknesses will also be identified. The essay will focus particularly on the lessons to be learned by the acquisition by a multi-national food business, albeit with minority co-operative ownership, of one of the co-operatives in 2010. The latter had been extremely successful as a business entity and as a co-operative but fell behind in terms of fully implementing co-operative principles around shareholding and capitalisation. The on-going recovery of the largest of the eight co-operatives, having over-diversified into risky non-core activities, will also be examined with lessons noted.

This in-depth look at the co-operative successes and struggles should help chart a sustainable co-operative approach for dairying and agriculture particularly in light of continuing EU agricultural reform and a post Celtic tiger crash necessity to utilise indigenous resources such as food to re-build employment, both on and off farm, and indeed re-build rural communities themselves.

Overview of multipurpose agricultural and dairy co-operatives in Ireland[1]

The dairy co-operatives in Ireland typically engage in a variety of activities and are considered to be multi-purpose, engaging in more than a single purpose (such as milk processing). The main co-operative activities, in addition to dairy processing and manufacturing, are livestock marts, meat processing, and the distribution and manufacture of farm inputs, such as animal feed.

According to the Irish Co-operative Organisation Society (ICOS)[2], there are twenty seven dairy co-operatives in Ireland, including co-ops with holdings in public limited companies (PLCs), with a total of 74,882 members and total sales of €10.27 billion. Membership and sales varied dramatically from co-operative to co-operative, depending not only on size of the co-operative but also on farm size structure in their own geographical area. The number of co-ops has steadily declined from the 1960s as a result of amalgamations. The number of dairy farmers, especially smaller farmers, has also been in steady decline.

The Irish dairy co-operatives along with other rural societies, such as marts and fishing co-operatives, are members of ICOS. The ICOS, itself a co-operative, represents the interests of its member co-operatives nationally and internationally, and provides them with leadership and training. Most Irish dairy co-operatives are also members of the Irish Dairy Board, a federated co-operative set up to market Irish dairy products abroad. Most well-known of its brands is Kerrygold butter, selling to fifty markets internationally. It exports in the region of 60 per cent of the output of its co-op members.

Milk suppliers and traders are normally admitted to membership in a dairy co-operative by purchasing a number of ordinary shares valued at €1.27 in proportion to their milk supply/trade. They are then entitled to one vote (at shareholders' meetings and elections) regardless of the size of their shareholding. Shareholders are organised into branches/areas, which also serve as electoral constituencies. Some co-operatives elect a number of area advisory boards which meet at area level, a few times per year, to advise on policy, while other co-ops elect a general committee from the areas, which meets centrally with senior management. The board of directors is usually elected from among the advisory/general committees. In co-operatives with a stake holding in a PLC, the co-op representation on the PLC board is normally elected by and from the co-op boards and includes some senior executives[3].

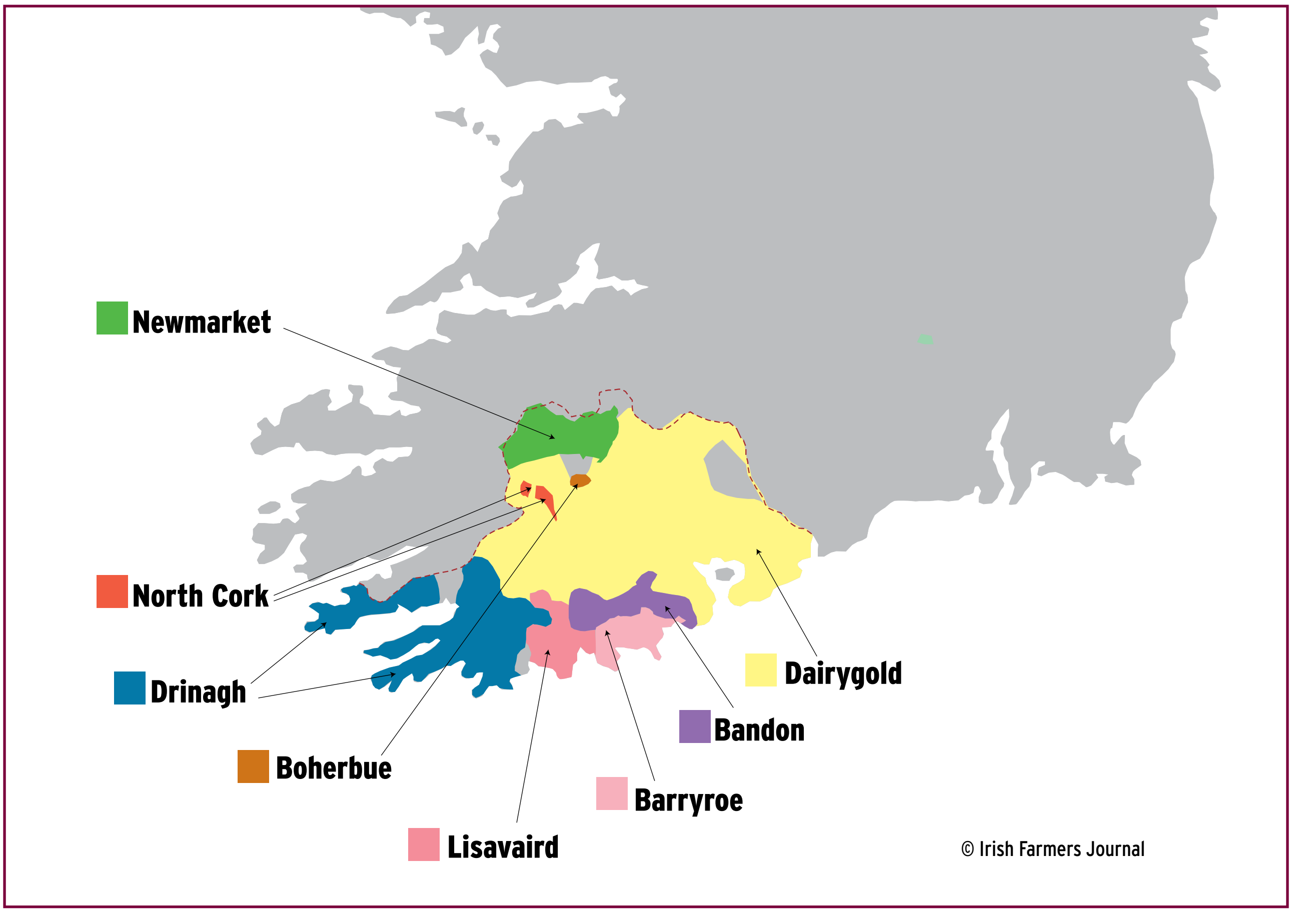
Business and policy environment for dairy co-operatives in Ireland

The agricultural business and policy environment in Ireland has shifted considerably in recent decades, particularly in the context of the introduction in 1984, and proposed abolition by 2015, of the EU milk quota system. The milk quota system allocated a national milk quota in each EU member country together with individual quotas for milk producers. This means that if a producer produces more than his or her allocated quota, a super-levy (or fine) may be payable. The imposition of milk quotas had a deep impact on the structures of dairy co-operatives in the mid to late 1980s and early 1990s and was a factor together with the more serious issue of non-user membership and shareholding which led to many of the larger co-ops moving towards PLC structures.[4] This PLC structure involved the exchange of the bulk of the co-op assets for a majority shareholding in a newly created investor-owned firm used as a vehicle to raise finance. For the co-ops that chose this route, the co-op ownership in the PLCs has gradually declined overtime, resulting in a reduction in the control of the co-op shareholders in their business. Many smaller co-ops also merged into much larger entities at that time, while for others, there were few if any changes. The proposed abolition in 2015 of the milk quota system opens up significant opportunities and challenges for milk producers and their co-operatives. In its outlook towards and beyond 2015, the Irish government, in its 'Harvest 2020' report, proposes that milk production in Ireland can be increased by 50 per cent by 2020. It is recommended that the processing capacity must be increased to meet the expected increase in milk supply and that a small number of scaled processors will be needed. As we will see later, the dairy co-operatives are now planning towards 2015 and beyond. It is likely that for many co-operatives, the abolition of quotas represents a real opportunity for expansion. How this expansion will be funded is not clear. However, a real threat to milk price is also envisaged as supply increases dramatically. Furthermore, the continuing decline in the numbers of farms and of full-time farmers and the increasing numbers of part-time farmers who have relied on sometimes vulnerable off-farm sources of income, may mean that not all producers will be willing or able to increase their supply. The high percentage of 'dry' or non-supplier farmer members compared with active supplier-members of dairy co-operatives may also be an issue when it comes to proposing or implementing change in dairy co-operatives.

Multipurpose agricultural and dairy co-operatives in Cork

In 2012, there are seven multipurpose agricultural and dairy co-operatives operating in the Cork County area. This figure was reduced from eight in 2010 with the sale of Newmarket Co-operative to the Kerry Group, an issue which will be discussed later.

Figure 2 – Manufacturing milk supply map of Ireland



The table below shows membership, sales, shareholding and net profit for each of the eight co-operatives at the end of 2009.

Table 2 – Statistics for dairy co-operatives in Cork, as of end 2009[5]

Co-op name	Membership	Sales €'000	Net profit (before tax) €'000	Shareholding €'000
Bandon	690	48,859	2,685	51,445
Barryroe	670	77,396	4,249	56,331
Boherbue	160	13,043	23	7,377
Dairygold	8,994	555,175	10,446	220,090
Drinagh	2,513	3,654	1,696	71,539
Lisavaird	1,109	3,029	1,768	49,821
North Cork	550	325	(145)	8,261
Newmarket	680	56,588	843	20,898

The table shows that the majority of the co-operatives are relatively small, with one, Dairygold, standing out as by far the largest of the eight. In terms of the dairy industry in Ireland, Dairygold is ranked fourth in terms of total turnover. The co-operatives are generally profitable businesses and, as we will see later, pay very competitive milk prices to their suppliers. We will now briefly discuss the background, core business activities and strategies of each of the eight co-operatives in turn.

Dairygold Co-operative Society Limited[6]

Dairygold is by far the largest of the dairy co-operatives operating in the Cork area and indeed is Ireland's largest farmer-owned co-operative with almost 9,000 members. Dairygold was formed in 1990 through the amalgamation of two dairy co-operatives, themselves in operation since the early 1900s. It processes in the region of 960 million litres of milk annually, the equivalent of 18 per cent of Ireland's total milk pool. It has three main business activities: dairy, focussing on infant formula, casein, skim milk powder and cheese, and consumer foods; agri, trading in grain, fertiliser and other farm inputs; and retail stores offering a wide range of farming and household hardware and garden supplies. The co-op has 3,000 active milk producers supplying milk to the business, the equivalent of about one third of its total shareholders.

Dairygold has clearly committed itself to remaining as a co-operative. In the early 1990s, Dairygold strongly resisted the moves by most of the other largest dairy co-operatives towards a PLC structure. That is not to say that Dairygold has not had its own strategic difficulties. In 2006, the co-operative set up its own spin-off PLC, Reox Holdings, to deal with its consumer foods, DIY and property interests. Dairygold took a 26 per cent share in Reox Holdings. Reox Holdings invested heavily in property and following the enormous crash in the property market, experienced significant losses. Reox Holdings began a major rationalisation programme, closing many of the DIY retail outlets, selling others back to Dairygold, and selling the consumer foods division to the Kerry Group in 2009 and thereby losing some of its important consumer brand names. Dairygold then commenced a programme of buying back some of the property in Reox Holdings. The re-purchasing from Reox Holdings has meant that Dairygold has been in debt for the past few years, despite making significant operating profits.

Under new management in the past two to three years, Dairygold has refocused itself on its core business of collecting and processing milk and of supplying its farmer members with agricultural inputs. According to O'Keeffe, the major issue on the agenda for Dairygold now is to determine its strategy in a post quota environment.[7] Dairygold predicts an increase in milk volumes of 47 per cent by 2020. Calls by representative bodies for Dairygold to consider merging with another large co-op to help build processing capacity have so far not materialised, although Dairygold claims to have an open mind. The co-op is currently surveying its shareholders regarding their intentions to supply beyond 2015. It is also considering a range of finance options to assist in expansion.

Drinagh Co-operative Limited[7]

In membership terms, Drinagh Co-op is the next largest of the Cork co-operatives with a little over 2,500 members. It has over 640 milk suppliers, supplying in the region of 131 million litres of milk annually. Its main business activities are in milk purchase and collection, high quality animal feeds, stores and property. Drinagh is deeply rooted in the area it serves, maintaining ten retail branches, selling groceries, fuel and agricultural supplies. Drinagh has been making efforts to diversify its portfolio through investment in a renewable energy company. Drinagh is one of the four co-op member-owners of Carbery Group Ltd., to which it supplies all of its milk for processing.[9] According to Leslie, it is expected that Drinagh milk suppliers will increase milk volume by 40 per cent post 2015.[10]

Lisavaird Co-operative Creamery Limited[11]

Lisavaird Co-op has over 1,100 members. There are 400 active milk suppliers to the co-op, supplying seventy-three million litres of milk annually. Its main activities are in milk collection, animal feed, pig fattening, and hardware and grocery retailing. It operates seven retail stores. In 2009, it acquired a value added cooked meats business. It had interests in a wind energy business which it disposed in 2008. It too is a member of the Carbery Group Ltd to which it supplies all its milk for processing.

Bandon Co-op Agricultural and Dairy Society[12]

Bandon Co-op was formed in 1903 and has 690 members. It collects eighty-five million litres of milk annually. Its main business activities are in butter and cheese production, animal feeds, and retailing of farming and household hardware supplies. Bandon Butter is a renowned butter label in Ireland in both the retail and catering markets. Bandon Co-op also packs and markets the Kerrygold brand of butter to retail customers in Ireland, under franchise from the Irish dairy Board. It 2009, Bandon Co-op acquired a cheese packing business. According to Leslie, Bandon Co-op expects milk supply to increase by 2015 but by how much will depend on milk price.[13] Bandon Co-op is already 8 per cent over quota in the current year.

Barryroe Co-operative Limited[14]

Barryroe Co-op was founded in 1925 and has 670 shareholders. 224 dairy farmers supply a total of seventy-two million litres of milk annually. The co-op is also a major purchaser of grain, processed as animal feed. It also specialises in pork, having a fully owned subsidiary which processes pork supplies. As with most other co-ops, it also operates a farm supplies retail division. It is currently surveying its members to determine their intentions regarding the supply of milk post 2015. It is currently 1.9 per cent over quota.

A note on Carbery Group Limited[15]

Together, Bandon, Barryroe, Drinagh and Lisavaird have formed a federal co-operative known as Carbery Group Ltd to process all or almost all milk collected by the four co-operatives. Respectively, they hold 20.6 per cent, 16 per cent, 35.5 per cent, and 18.2 per cent of the shares in this second level milk processing co-operative.[16] It processes the milk collected by the individual co-ops in their own trucks, which are decked out in the individual livery of each co-op. Each co-op is free to decide on the milk price it will pay to its own members. Despite this, or perhaps because of this, they typically pay among the top milk prices as we will discuss later when we examine the national milk price league tables as they apply to the Cork co-operatives. The Carbery Group has approximately 350 employees, not including the employees of the individual co-operatives.[17] Carbery reported a total turnover in 2010 of €224.3m.

Carbery is a leading cheese manufacturer (Dubliner Cheese is its best known brand) with some involvement in food ingredients and alcohol. It operates its own dedicated R&D facility. The individual co-ops which own Carbery, continue to operate independently for the provision of farm stores and services to their members. Indeed, they have separately embarked on diversification programmes, depending upon their members' needs and interests. For example, Bandon Co-op has encouraged their farmers to grow onions, which they market through the Supervalu supermarket chain, while Lisavaird is involved in wind energy generation.

The board of Carbery is comprised of two representatives from each of Bandon, Liasvaird and Barryroe and three from Drinagh on account of its greater share ownership. According to Byrne & Ward, Carbery enables the co-ops to retain local ownership and control while enjoying the benefits of being part of an international business and allows the co-ops to 'avail of scale which would have been impossible if they were acting alone'.[18]

More recently, individual suppliers, who are members of the individual co-ops, have been allowed to take a small direct shareholding in Carbery, independent of their co-op affiliation. The current total shareholding by these farmers is approximately 9 per cent.[19] It could be argued that this copper-fastens active milk supplier control of Carbery.

Boherbue Co-op Society Limited

In membership terms, Boherbue Co-op is the smallest of the dairy co-ops in the Cork area. It has a focused strategy of collecting its members' milk and selling it to a luxury chocolate crumb factory. This highly focused strategy has meant that Boherbue is very consistently paying the highest or close to the highest milk price in the country to its farmer-owners.[20] Boherbue is also highly committed to providing or facilitating in the provision of important services in its local area. It has placed a strong emphasis on supporting local employment. It rents out part of its premises for a food incubation unit which supports the provision of daily meals to the elderly of the area and runs its own grocery shop and cafe in the local community.

North Cork Co-operative Limited[21]

North Cork Co-op was formed in 1928 and has 150 active milk suppliers. It processes over sixty-eight million litres of milk annually in its own processing facilities and also purchases milk from other co-ops. Its total membership is comprised of 550 shareholders. However, it has ensured that only those shareholders who are actively trading with the co-op can vote in a takeover situation. It is a major supplier of casein, claiming to be the first Irish co-op to have recognised the importance of the casein market. It exports its casein products to Italy, Spain, South Africa, Mexico and the US through the Irish Dairy Board. It is the only producer of super kosher casein in Europe, under the regular inspection of a Jewish Rabbi. Most of the demand for this product is from Israel. Farmers who agree to supply super kosher casein are paid a premium for their milk. North Cork Co-op also manufactures butter which is sold under the Kerrygold label. It also has a trading and stores division. According to management at the co-op, the ownership and independence of the co-op are more important to its shareholders than milk price. The co-op's strategy has been focused on keeping its processing plant up to date. According to Herlihy, the co-op installed a new separation milk line in 2011 to facilitate faster milk intake and to prepare for an expected increase in milk supply post 2015.[22] The co-op has also maintained a strong emphasis on the importance of providing services and employment within the local community.

It is noteworthy that in mid-2011, following the sale of Newmarket Co-op to Kerry Group, which will be discussed below, ICOS had encouraged Boherbue and North Cork Co-ops to consider merging given their geographical locations and small sizes. This was reported by Herlihy as having been rejected by the board of Boherbue Co-op.[23]

Newmarket Co-operative Creameries Limited[24]

Newmarket Co-op was formed in 1944 through the amalgamation of seven creameries in the area. Prior to its takeover in 2010, it had 150 active milk suppliers from a total membership of almost 700 shareholders. Approximately 370 of these shareholders were 'dry' shareholders and in the region of 180 were deceased or untraceable. Its total milk supply was thirty-seven million litres and it also bought in approximately 120 million litres from other co-operatives, representing about 70 per cent of the total milk processed. Fifty-five per cent of this milk was purchased from the Kerry Group. Newmarket's main business activity was in the production of cheddar cheese, which at the time of takeover, totalled 18,000 tonnes per annum with spare processing capacity for a further 12,000 tonnes. It also operated a farm store, a grocery outlet and had investments in renewable energy. It had invested heavily in its processing plant over the years resulting in a highly modern and efficient plant. The heavy reliance of the co-op on outside supplies of milk was seen as one of the key weaknesses of the co-op as this left it more vulnerable to milk shortages. In fact, one of the six co-ops supplying milk to Newmarket had withdrawn its supply as of 2008. Newmarket also considered itself too small to buy out any of its suppliers. In 2010, it had a total of €21.5 million in assets.

The Kerry Group made an approach to Newmarket at the end of 2009 with a proposal to buy it out. Clearly, Kerry was anxious to own and control the processing plant held by Newmarket given the well-established milk supply relationship. Kerry's total offer to Newmarket was valued at €35 million. For shareholders, this meant a cash payment of €421 per share held to a total of approximately €25 million. An extra allocation of shares would be made to all member-suppliers who were active (on the basis of gallonage supplied in 2009), in advance of the closure of the deal, which would cost in the region of €2.5 million. Kerry would clear debts in the co-op of €5 million (incurred through plant capacity building) and would pay an additional €2 million to buy the wind energy interests of Newmarket. The proposal required a 66 per cent majority vote in favour by members in attendance at a special general meeting in order to be passed. There were no rules which stipulated, for example, that only active milk suppliers could vote in a takeover situation, such as has been implemented in other co-ops. In fact, previous attempts by the board and management to change the rules in this regard were resisted. Therefore, all members – active suppliers and non suppliers – had equal voting rights. Approximately 430 members turned out to vote at the meeting with 82 per cent voting in favour of the proposal. The average member received almost €48,000 each from the sale of the co-op. The Newmarket case is an example of the rare phenomenon of a direct takeover of a co-operative in Ireland.

Co-operative milk price

The table below shows the milk price league tables for the co-operatives being studied from 2009–12. The milk price league is published regularly by the Irish Farmers' Journal, a newspaper for the farming community, and gives a listing of the top milk price paying co-ops in the country as independently audited.

Table 3 – Milk price league table position[25]

Co-op	Position 2009	Position 2010	Position 2011	Position 2012
Bandon	8th	16th	1st	6th
Barryroe	3rd	7th	2nd	7th
Boherbue	13th	5th	4th	1st
Dairygold	4th	12th	6th	3rd
Drinagh	6th	9th	5th	5th
Lisavaird	9th	8th	3rd	4th
North Cork	5th	4th	7th	9th
Newmarket	7th	3rd	Not applicable	Not applicable

Source: Irish Farmers' Journal

While it should be noted that in recent times milk price does not differ significantly between the dairy co-ops in Ireland, the table clearly shows that the Cork co-ops, regardless of size and business strategy, consistently out-perform the other co-ops in the country. Apart from very occasional slippage, the Cork co-ops almost always feature among the top ten milk price payers in the country. For example, headings such as 'Cork co-ops are first division players'[26] and 'Boherbue remain on top'[27] are typical headlines in the farming press.

Factors resulting in adoption of different strategies

From our brief description of the eight dairy co-operatives in operation in Cork, we can see that a range of issues have influenced the development of the co-operatives and their resulting business and co-operative strategies. For all of the co-operatives, their historical background has proved fundamental to the decisions they have taken regarding structure and business activities. The smaller co-ops, including North Cork and Boherbue, have maintained a distinct local focus, and have emphasised provision of local services and employment. Many of the smaller co-ops have remained independent and have continued to operate within the same area since their foundation. This has preserved their focus on the local farmer owner. On the other hand, larger co-ops such as Dairygold, are removed geographically from many parts of the area they serve, which can negatively impact on the members' perceptions of the co-op in their local communities. Co-ops with a large geographical reach tend to have more diverse memberships and member needs.

Most of the Cork co-ops at some point had supplying relationships with private processors. In particular, the four co-ops that went on to form Carbery did so by forming a federation to buy out the common private processor they each supplied. Through efficient and innovative management, they have further developed and expanded the business. The federal buy out option was chosen in a conscious effort to maintain their individual control including the ability to act independently in other farming business activities.

The Newmarket strategy of purchasing in milk supplies from neighbouring co-ops, compensated for its inability to grow internally as a result of the restrictions of the EU milk quota. Utilising plant to full capacity and affording the continual upgrading of plant was extremely successful and enabled the co-op as a very profitable and asset-rich entity, to pay its own milk suppliers a very competitive milk price. However, over-reliance on one co-op milk supplier, namely Kerry Group, coupled with a share register which eventually became dominated by non milk suppliers, led to an attractive buyout offer particularly from the perspective of the non milk suppliers.

Success of varying approaches

The co-ops have pursued a variety of different approaches to their businesses while largely retaining member control. Dairygold's approach to developing scale through merger, notwithstanding the difficulties they have faced, positions it well to cater for the extra production of their milk suppliers post 2015. The recovery of Dairygold to a position of operational profitability and a clear focus on meeting the needs of the members post 2015, clearly demonstrates the resilience of the co-operative way of working. Farmers would appear to be united behind a co-operatively-minded management and board in their efforts to maintain control over their business in a growth scenario.

There is much admiration in Ireland for the Carbery approach. It has given the co-operatives much needed scale, allowing for diversification into high value products, while maintaining local ownership and control. Co-operatives such as Boherbue and North Cork are far from convinced by the efficiency and economy argument for large scale milk processing. They have deliberately followed a strategy of remaining small and independent. This strategy has been seen as the best way to serve the needs of their members. They would point to what is perceived as a relatively poorer performance by the larger co-ops and PLCs alike. The smallness strategy has worked well in a quota environment where there have been limitations on the amount of milk that could be produced. Therefore smaller entities could negotiate a competitive price for their members where demand was high and supply was curbed. In the post 2015 scenario, where restrictions on milk production have been lifted, this is likely to alter considerably. Furthermore, smaller co-ops that are not processing milk will have to negotiate on behalf of their suppliers to ensure an outlet for increased supply. As we have seen, one strategy adopted whereby the entire milk supply to the co-op was sold for private processing resulted in consistently high milk price for the suppliers. However, failure to invest in any processing capacity of its own or contribute to capacity in other co-ops could be argued to have weakened the co-op effort as a whole and will present dilemmas in planning for post 2015.

While the Boherbue strategy might not be easily replicable or even desirable, it nevertheless works well for the co-op and its relatively small group of suppliers. It also works well for the wider community in its small catchment area.

Weaknesses and lessons to be learned

One of the key weaknesses of most if not all of the eight co-ops, is the insufficient appreciation for applying co-operative ways of working and ensuring that users always remain in control. Keeping the needs of the users firmly in mind might have prevented co-ops like Dairygold from excessively straying into property and DIY outside its core business. Perhaps the greatest weakness has been insufficient attention being paid to the application of the education principle at both ordinary member and board level. Had the boards the confidence and skill to set the strategic direction so as to meet the members' needs? Indeed, was sufficient effort made to identify those needs? Perhaps most co-ops and their boards had an over-reliance on their senior management and overly allowed management to set the strategic direction which, in most cases, was in farmers' interests but in Dairygold had serious consequences which it is only now overcoming. And given that management and board attempts to introduce membership reforms in Newmarket did not meet with sufficient favour, the takeover was probably inevitable.

This line of argument might explain some of the ways in which things went wrong but what accounts for or how do we explain the very many good decisions by all eight co-ops? Each of the co-ops in their various ways are deeply rooted in their rural environments and motivated by a desire for social and economic success. All without exception are motivated by co-operative values albeit varying in their interpretation of what these values mean in modern Ireland.

Sustainable future co-operative approach for dairying and agriculture

Most of the eight co-ops are well-positioned to meet the challenges and opportunities presented by the likely post 2015 environment. Perhaps the more independent small co-ops such as Boherbue and North Cork might benefit from some kind of strategic alliance with one another or with Carbery, Dairygold, or other larger co-ops. Alternatively, they need to look at further development of niche opportunities in either milk or farm-related activities where small scale is a clear advantage. Some commentary, including ICOS (2009), the Dairy Industry Prospectus Reports 2003 & 2009 and Harvest 2020, has strongly encouraged much greater consolidation in the Irish dairy industry which would include entities such as Carbery, Dairygold and others integrating their activities more closely together. Suffice to say that the successful Cork co-ops would be well-positioned to take a lead in any such development and, at any rate, independent research suggests that additional plant capacity might well be best located in the Cork area.[28]

Endnotes

1 The section draws on M. Ward, 'Ireland's Multipurpose Dairy Co-operatives' in R. Briscoe and M. Ward (eds), *The Co-operatives of Ireland* (Cork, 2000).

2 ICOS, *Annual Report 2010* (Dublin, 2010).

3 Some of this material is drawn from R. Briscoe, O. McCarthy and M. Ward, 'From Co-operatives to Conventional Businesses and Back Again: The Irish Co-operative Experience' in J. Sousa and R. Herman (eds), *A Co-operative Dilemma: Converting Organizational Form* (Saskatchewan, 2012).

4 See M. Ward, 'Feeding Ourselves II: Farmers' Co-ops & Food' in R. Briscoe and M. Ward (eds), *Helping Ourselves: Success stories in co-operative business and social enterprise* (Cork, 2000).

5 ICOS, *Annual Report 2010* and Newmarket Co-operative, *Annual Report 2009* (Cork, 2009).

6 Some of the facts and figures here were sourced from www.dairygold.ie, accessed 2 May 2012.

7 P. O'Keeffe, 'Dairygold on track for 20m profit' *Irish Farmers' Journal*, 17 December 2011.

8 Some of the facts and figures here were sourced from www.drinaghcoop.com, accessed 2 May 2012.

9 Carbery Group Ltd is discussed in further detail later.

10 B. Leslie, 'Drinagh Co-op 2010 profits rebound' *Irish Farmers' Journal*, 3 September 2011.

11 Some of the facts and figures here were sourced from www.rosscarbery.ie/lisavaird_coop/, accessed 2 May 2012.

12 Some of the facts and figures here were sourced from www.bandoncoop.ie, accessed 2 May 2012.

13 B. Leslie, 'Bandon Co-op turnover reaches new high' *Irish Farmers' Journal*, 10 September 2011.

14 Some of the facts and figures here were sourced from www.barryroeco-op.ie, accessed 2 May 2012.

15 Some of this material is drawn from Briscoe, McCarthy, and Ward, *From Co-operatives to Conventional Businesses and Back Again*.

16 N. Byrne and M. Ward, *A Case Study of an Irish Business Processing and Marketing Collaboration: Carbery Group Ltd*, Paper presented to Enterprise Ireland, 2011.

17 Byrne and Ward, *A Case Study*.

18 Byrne and Ward, *A Case Study*, p. 4.

19 Byrne and Ward, *A Case Study.*

20 This will be discussed in further detail later in the essay.

21 Information supplied by the co-op on a field visit.

22 M. Herlihy, 'North Cork Co-op records huge increase in turnover' *The Corkman*, 2 June 2011.

23 M. Herlihy, 'Duhallow Co-ops Merger Plan Rejected' *The Corkman*, 5 May 2011.

24 Most of the facts and figures here were sourced from interviews with the retired CEO of the co-op.

25 As reported in the Irish Farmers' Journal, February each year.

26 *Irish Farmers' Journal*, 15 October 2011.

27 *Irish Farmers' Journal*, 11 December 2010.

28 C. Quinlan, L. Shalloo, M. Keane, and D. O' Connor, *Milk transport options for an expanded dairy industry post milk quota removal in 2015*, Paper presented at AESI Conference, Dublin, November 2011.

The resilience of co-operative food networks: a case study from Stroud, England

James Beecher, Molly Scott Cato
and Nick Weir

5. The resilience of co-operative food networks: a case study from Stroud, England

James Beecher, Molly Scott Cato and Nick Weir

Introduction

This essay draws together discussions in two areas that have become the focus of particular interest in recent years: food security and co-operatives. We argue that ensuring food security requires not only relocalising our systems of food production and distribution, but critique and action to address the nature of ownership of our food systems, which have become increasingly driven by profit-seeking. We propose a mutual approach to food systems, driven by the central objectives of provisioning, in contrast to the central objective of profit-making which is presently dominant. This, we argue, is the only way to achieve true food security. We offer these arguments in the context of our local home community of Stroud in Gloucestershire.

A high-point of concern about food security, an issue that had long been the source of debate in the world's poorer countries, became one of concern in the wealthier nations of the West.[1] Four factors were implicated in this 'food crisis'. First, through floods, droughts and other extreme weather events, (anthropogenic) climate change was responsible for reduced yields. Second, partly as a result of (misguided) policies attempting to alleviate human contributions to climate change, the land's role in producing food was challenged by a rise in demand for land to produce fuel crops, especially the US and EU, where favourable tax regimes shifted farmer priorities, and drastically reduced the grain available on global markets and supplied by the US Government as aid. Third, demand for land-intensive crops rose following income growth and the spread of Western diets in many parts of the world, most notably an increase in meat and dairy consumption in China's burgeoning middle class. Finally, following the collapse in values of innovative financial products during the global financial crisis in 2008, investors shifted vast sums to food commodities and derivatives; prices of staple foods hence became divorced from direct demand for them as speculation took hold. Increased prices and volatility in food product markets caused widespread suffering, and implicated in a new wave of civil unrest ('food riots'), which have since resulted in changes in administration in at least one country (Tunisia). Neo-classical economists, neo-liberal think-tanks, and mainstream politicians have continued to defend a free-market, laissez faire approach to the food system and food security. Yet when over a tenth of the world's population is hungry (with millions at the other end of the scale suffering the health impacts of overconsumption), claims about the allocative efficiency and innovation through competition and private sector biotechnology look increasingly insensitive, malevolent and cruel. In addition, fears about declining supplies of cheaply accessible oil and the reliance of our global food system on oil as a key input in both fertiliser and transportation, spread in areas of the world where price fluctuations were mitigated by generally higher incomes. The global food system, which has long been challenged for its excessive use of energy, and failure to provide for all, is now frequently seen to be insecure as well.[2]

In this essay we use the increasingly popular concept of resilience, to frame and organise our argument. We discuss the various meanings of 'resilience' in the following section, before providing an understanding of the term that we suggest helps describe what a genuinely 'secure', or in our terms, 'resilient' food system might look like. In Section 3 we describe a range of local food behaviours and enterprises in our case-study area: our hometown of Stroud in Gloucestershire, UK. Finally, in Section 4 we explore whether there might be essential connections between local food resilience and issues of ownership and control. We conclude by offering a sketch of a co-operative food system, giving attention to the aspects of both production and distribution.

Resilience: a concept for all seasons

In general speech the word 'resilience' refers to a capacity to respond positively to shock(s) and not to be overcome by adversity. In recent years, the term has become increasingly popular amongst policy-makers, especially in discussions of responses to terrorist attacks and natural disasters, but also in framing discussions about the ecological crisis and how to respond to it. The concept of resilience – first used in the hard physical sciences, particularly engineering – is now popular across a range of disciplines, producing considerations of the resilience of financial institutions and of local communities, as well as materials and ecosystems. In this essay we use the concept of resilience to frame our discussion of the local co-operative food economy of Stroud. We begin by analysing the way 'resilience' has been used in various fields of study in order to develop an operational definition. This definition guides the presentation of the food provisioning enterprises we go on to describe. We then analyse the resilience of the existing global food system.

The concept of resilience arises from the field of engineering, where resilience is calculated as the amount of energy that can be elastically stored per unit volume of a material that is deformed. In other words, the concept is used to express the amount of stress that can be withstood before a material will either break or fail to return to its original form. Following Holling,[3] ecologists have extended the concept to inform understanding of how complex and interrelated ecosystems respond to external shocks, and in particular to assess how much disturbance they can withstand before moving to an adapted state of equilibrium (elsewhere in this literature, ecosystems are understood as being in permanent disequilibrium rather than diverging and returning to equilibrium conditions).

In the psychological literature resilience takes on a more dynamic meaning, referring to the potential of the human psyche to 'bounce back' from damaging life experiences. Although the events may be undesirable, it is a mark of a healthy psychology to be able to respond positively, an aspect of personality that is less an inherited trait and more the result of a developmental process.[4] This sort of psychological definition has been extended to whole communities, particularly in consideration by public authorities concerned about potentially destructive responses to external threats, especially from terrorism. In this context resilience is about the ability to rapidly rebuild and repair vital social systems following attack or natural hazards.[5] In this context David Omand, the UK's Intelligence and Security Co-ordinator defined resilience as 'capacity to absorb shocks and to bounce back into functioning shape, or at the least... to prevent stress fractures or even system collapse'.[6] This sort of definition has been used explicitly in connection with food security:

> the direct dependence of communities on ecosystems is an influence on their social resilience and ability to cope with shocks, particularly in the context of food security and coping with hazards. Resilience can be undermined by high variability (or disturbance in ecological terms) in the market system or environmental system. Resilience therefore depends on the diversity of the ecosystem as well as the institutional rules which govern the social systems.[7]

Barry[8] suggests that resilience will become 'an over-riding virtue and concern of individuals, communities, economies and systems of production and consumption' as we move towards the climate-changed and carbon-constrained world of the twenty-first century and beyond.' However, this is not a negative response to the failure of current systems but rather an inspiring and positive alternative: 'resilience as a capacity has to be a necessary part of what it means to be a healthy human and a healthy human community'.[9]

From this very brief consideration of the voluminous literature relating to resilience, several aspects have demonstrated a particular salience for an exploration of a local food economy. Barry considers resilience as a possible response to vulnerability. In terms of a consideration of the transition to a sustainable society he explores the need to reconsider vulnerability as a threat and rather accept it as an inevitable part of life. Hence the appropriate response to vulnerability should be not invulnerability but rather resilience. Resilience is thus defined as symptomatic of a life lived in acknowledgement, if not quite celebration, of vulnerability: 'To be resilient means, at the most basic level, to live, to be able to continue living in the face of often negative changes in circumstances and those *inevitable* and often unpredictable challenges all human beings and all human societies face'.[10]

Secondly, we can adopt some of the aspects of the engineering definition of resilience as opposed to fragility: a resilient material will not shatter when it is exposed to shock. This is a property that can usefully be extended to social systems: resilient communities will have characteristics that enable them to bend rather than break when stressful events occur unexpectedly. In view of the likelihood of shocks, especially climate-related shocks that will impact strongly on agricultural production, this aspect of withstanding shock is a characteristic of the economy that we might particularly value and that is in contrast to an efficiency-driven approach. It provides a view of provisioning as about maintenance and stability, particularly during periods of rapid change following an external disturbance.[11] In this context Chip Ward offers a systemic understanding of resilience: 'A resilient system is adaptable and diverse. It has some redundancy built in'.[12] As Holling (emphasis added) explains, in the field of ecology, 'a major strategy selected is not one maximising either efficiency or a particular reward, but one which allows persistence by *maintaining flexibility above all else*'.[13] The motive to maximise flexibility creates demand for 'redundancy' or 'slack' within systems, and refers essential to space or capacity set aside to ensure a certain essential level of system functioning is maintained when ideal system functioning is compromised. Though there are clearly opportunity costs here, popular use of the term resilience has often overlooked the mutually-exclusive nature of such 'slack' and profit-seeking: 'Under a world-view of short-term profit maximisation and a predictable or stable future, such costs are seen as unnecessary and easily become the target of… efforts to increase short-term efficiency'.[14] Barry argues that 'while "sub-optimal" from an orthodox economic view of efficiency' decisions to incorporate slack 'need to be viewed rather as necessary "investments", required to create resilient, sustainable socio-ecological systems'.[15] To achieve such investments requires critique and action to address profit-seeking as a societal objective.

The third and final feature of resilience that is relevant when thinking about local food systems relates to adaptability. This feature is drawn from the psychological literature where, as we saw, authors such as Luthar and Cicchetti have proposed the ability to respond positively to negative life events as constitutive of resilience in terms of human psychological health. In terms of provisioning this may have important implications in terms of food security. 'Resilience describes an active process of self-righting, learned resourcefulness and growth – the ability to function psychologically at a level far greater than expected given the individual's capabilities and previous experiences.'[16] Economies are inherently systemic and unpredictable, and agricultural economies perhaps especially so. In this context it is especially important to focus on the responsive, adaptive aspect of the resilience concept: 'the ability of the system to withstand either market or environmental shocks without losing the capacity to allocate resources efficiently'.[17]

So, drawing on the wealth of literature related to resilience we have arrived at a threefold definition that we can use in analyzing food provisioning systems. A resilient system would be one that was aware of the vulnerability that dependence on nature entails and seeks to create security in awareness of, rather than denial of this fact. A resilient food system would be one that limits its vulnerability to shocks, and is prepared to include what might be considered 'inefficient' features to enable this flexibility. And thirdly, a resilient food system would be adaptive: when changes come the system would be able to respond in a positive and dynamic way. A food system designed in this way might meet Barry's call for systems of 'creative adaptive management'.

To what extent do our existing food supply systems meet these criteria? An analysis of the position of the ports on which seventy-five of the world's trade and 99 per cent of the UK's food imports depend would suggest that they do not.[18] Unsurprisingly, they are at sea-level, yet the rise in sea level is one of the least contested changes associated with climate warming. In 2007 the Intergovernmental Panel on Climate Change predicted a 0.35m rise in sea levels by the end of the twenty-first century.[19] However, since these figures were released the speed of melting of Antarctic and Greenland icecaps has caused scientists to revise their forecasts; in 2009 they declared that sea-level rise was occurring at twice the rate they had estimated just two years earlier.[20] Although the adaptability of ports varies, it would be difficult to imagine that this will not have a significant impact on the global trade system, and given the unpredictable nature of climatic events, it might result in sudden shocks rather than gradual and predictable adjustments.[21]

The co-operative food economy of Stroud

The motivation for the creative development of a local food economy in Stroud has been an environmental one, and yet its evolution has followed a co-operative path (a useful brief introduction to agriculture within the District can be found in a report produced for Transition Stroud, the sixth Transition Initiative in the UK).[22] Cutting out the middlemen to ensure maximum value flows back to producers, and reducing food miles, goals important in their own right, and for the economic viability of projects, has required that the pioneering local food projects that have been developed in Stroud have created a co-operative food economy. Stroud's community-supported agriculture and its farmers' market are of national importance, but they are only two examples of a wider system of mutual food production and distribution that could be adopted more widely. In this section we provide thumbnail sketches of some of the most important.

Stroud Community Agriculture (SCA)

Two Stroud residents interested in the concept of Community Supported Agriculture held a public meeting attended by around eighty people in November 2001. Through a series of subsequent public meetings this community decided to commit to take on the lease of a local walled garden and pay the wages of a part time vegetable grower from March 2002. SCA is now a thriving social enterprise owned and run by 230 supporter households. SCA employs three full time farmers and growers on fifty acres of land producing vegetables, fruit and meat which are shared out to the support community who pay all the running costs of the farm. SCA makes a small profit each year which the management committee (elected from the supporter households) either invests in capital improvements to the farm or pays as a bonus to the farmers. SCA has created a direct relationship between the farmers and the consumers involved. This gives the farmers important information about what to produce as well as the satisfaction of hearing direct feedback from over eight hundred (mostly) happy customers! This relationship gives the consumers very high quality food at reasonable prices because the supply chain is so short. It also gives the consumers a direct connection to the land and people who have grown their food. This seems particularly important to families with young children. SCA provides monthly farm days where people can come and work with the farmers and growers on farm projects, providing their labour in the spirit of mutual aid, in kind/for free to support the project. The farm is also linked with an olive-oil producing co-operative in southern Spain, which makes olive oil, olives and citrus fruit available to SCA members every January.

Stroudco Food Hub

One of the founders of SCA and a more recent member of the SCA management group set up Stroudco in October 2005. Stroudco is an internet-based CIC set up as a co-operative of local food producers and food consumers who jointly own and manage the business. Producer members offer their produce at a price higher than wholesale but lower than retail. Consumers order on-line, the producers are sent a weekly purchase order for exactly the quantities ordered which are then delivered to a school hall in Stroud on a Saturday morning. Producers are paid 92 per cent of the selling price on delivery with Stroudco taking 8 per cent to help cover running costs. Consumers pay a membership fee as their contribution to costs. The main cost being the wages of a manager who works up to two days per week to manage the website and run the Saturday food drops with volunteer support from the consumer community. Stroudco allows producers to trade very small volumes of food and drink. This has encouraged several new food producers to set up on a small scale and supported the growth of small producers to larger-scale businesses; the overall effect being to increase the resilience of the local food economy around Stroud.

Stroudco producer members offer regular farm days for consumer members to engage with the work of production. This has included fruit picking for a small jam-maker, hop picking for Stroud Brewery and hedge planting for one of the farm members. Stroudco has been funded during its set-up phase and is on target to be generating a small surplus by the end of 2012. Any profits will be invested in building up a pool of equipment for producers to share. The Stroudco software and systems have been developed on an 'open source' basis and have been taken on by over sixty community groups internationally, again in the spirit of a form of mutual aid or gift economy.[23]

Community orchards, allotments and shops

There are a number of community orchards in the Stroud area, including a 'linear orchard' planted with local varieties which runs alongside a popular cycle route and others in the nearby villages of Whiteshill and Horsley. Although fruit is recommended as part of a healthy diet, Britain's domestic fruit supply is woefully limited, at only 5 per cent compared to Germany's 25 per cent. This is largely the result of the colonial hangover preference for bananas rather than apples, hence the role of the community orchard in rebuilding personal and social connections with our local fruit. The orchard provides the setting for annual pruning days, wassail events and other celebrations such as 'blossom day' picnics.

A form of gift economy is also evident in a community allotment, based at the Summer Street Allotments in Stroud, where a desire to share both crop surpluses, skills, tools, infrastructure (a shared shed and greenhouse) and time, and to build community, resulted in several allotment plots being worked together. Similar projects exist in a number of other allotment sites around the UK, and in addition to mitigating issues arising from crop gluts, serve to inculcate a sense of community that can spread such sharing behaviour to other products, as well as helping to overcome the fears of beginner allotmenteers, enable watering and maintenance when individuals are on holiday, and making learning food production skills easier, and more enjoyable for participants. Even among allotmenteers at the Summer Street site not involved in the community plots, and indeed in allotments around the country since their inception, sharing of surpluses, skills, tools, learning (and in the case of Summer Street and doubtless others) a shed are common. Such behaviour again occurs outside the market economy, instead linked both with traditions of common land ownership that persisted before enclosure and industrialisation, and with movement towards a mutual or gift economy of the future.

Community shops are a vital part of the local food economy in many villages and have grown in popularity in recent years, including the opening of a community shop in BBC Radio Four's fictional village of Ambridge in June 2010. The UK now has 235 community-owned shops with new ones opening on a monthly basis. In 2009 thirty eight community shops opened, while four hundred privately owned village shops closed, meaning that the co-operative approach is managing to save 10 per cent of village shops from closure.[24] There are two community shops in the Stroud Valleys: in the villages of Horsley and Ruscombe. Both sell produce grown by village residents, as well as Horsley sausages in the case of the former. While such shops are hence situated within the monetary economy, Ruscombe shop's annual report states that the shop is viable because of the support of many volunteers, further evidence of a mutual or gift economy at work (supporters also donate cash towards the upkeep of the shop building). The previous year, 2010–11, was particularly successful due to the sustained cold weather, which meant that villagers were unable to drive to more distant food suppliers, and so realised the value of a local shop. Thus, the importance of such local resources is clear in terms of resilience to extreme weather events. Analogies can easily be drawn with the effects of a sudden rise in oil prices: here too, local resources will enable greater resilience to shock.

Food Co-operatives

With such a wealth of local production and distribution initiatives you might wonder about the need for more food co-operatives. But there are items in most people's diet that cannot be grown in the UK climate and, rather than restricting their diets or visiting one of the two local co-operative supermarkets, even if it is part of the consumer-owned Co-operative Group, many local people in Stroud are members of informal food 'co-operatives'; groups of five or six friends who order jointly from a wholefood wholesaler on a monthly basis, enabling them to reach the level of order necessary for free delivery (usually around £250). In Stroud the country's two largest wholefood wholesalers Essential Trading and Suma Wholefoods (itself a fairly radical worker-owned co-operative, which features equal wages, horizontal management, and job rotation in addition to ethical sourcing of products) both deliver to these small food co-operatives, usually to people's homes, although Springhill Co-housing, which houses seventy five people in a range of different living units, also has its own food co-operative to which some residents belong. These co-operatives were originally popular with people who were seeking food that was not available in supermarkets, but even as supermarkets have moved into stocking wholefoods, food co-operatives survive because the extraction of corporate profits results in higher prices, not to mention perceptions of unethical behaviour by large supermarkets that are frequently held by members of informal co-operatives. The absence of any need for advertising relieves both the co-op's members and the local recycling facilities of superfluous packaging and promotional material, further enhancing the environmental benefits of such initiatives.

Such informal co-operatives are inherently very flexible. One project, which grew out of attempts by a local protest group (Catalyst) to raise funds to support campaigning work against proposals for a McDonald's in the town (a campaign which ultimately failed), has since shed its radical political origins. Following the loss of some founder members, including key organisers, new members have joined in an unplanned and unrestricted way, based on social networks rather than political views, and the co-operative is now 'purely' practical. Nonetheless, in this as in other such informal co-operatives, a mutual or gift economy is once again evident, with work compiling orders, organising bills, and transporting produce from delivery point to homes conducted by 'members' voluntarily and in ways characterised by sharing and mutual aid.[25]

Stroud Farmers' Market

Stroud Farmers' Market is one of the most successful in the country, now run every week (following the success of monthly, then fortnightly markets) and with a regular forty-five to sixty stalls at each market. The market is a thriving scene of social activity every Saturday morning, at its purpose-built town-centre venue. Many locals credit the market with a wider renewal of social activity, and shopping, in the town on both market days specifically, and at broader levels. In 2006 a survey of the market estimated an annual income to its stallholders of £1million.

If we dig little deeper, however, questions arise regarding the extent to which the farmers' market can be considered part of the co-operative food economy of Stroud arise. The market is now run under contract to the local authority, Stroud District Council. The council charges a considerable fee to the organisers, who are private individuals, meaning that stall rates have risen significantly over the years (elsewhere, farmer's markets are organised by producer co-operatives, in other words, are true 'farmer's markets' in that they are owned and controlled by the farmers themselves). With private rather than co-operative management it is not possible for producers and consumers to know, still less to influence, how the money they pay as rent for space within the market is divided between the market managers, the district council and stallholders, and the small number of market workers who assist with the set-up and take-down of the market, and an accompanying cafe. Shared knowledge, influence, and accountability are essential features of any co-operative activity.

Simultaneously the distance that producers travel to sell at the market has increased, partly because of the turnover they need to ensure to pay the stall fee. This undermines the ability of the market to contribute to local food resilience, since smaller scale producers are excluded from the market because of the high costs. This, together with the time stallholders need to spend staffing their stalls, was one of the factors that prompted the establishment of the Stroudco Food Hub.

Make a Meal of It

Stroud also has several co-operative shared eating groups, although rather as in the case of the local food co-operatives it is hard to evaluate the extent of these. The first group to share preparation and consumption of food on a formal basis was based at Springhill Co-housing, the UK's first new-build co-housing community which, since opening to residents in 2003 requires each of its resident-members to cook and/or to help clean up after cooking once a month. Shared meals are available for three nights each week; they are nutritious organic meals, reasonably priced, and very popular. From this example has sprung the idea of Make A Meal of It, a group which met regularly in a church hall in the nearby community of Uplands to share food together once a week. A further informal (and unnamed) group, made up of five female friends, meets most weeks to share vegan, gluten-free, and non-British recipes, kitchen space and tools, and cooking skills, in line with the dietary requirements of some members, and the cultural backgrounds, and restricted time and budgets of others. Although these are small schemes they do foster the spirit of shared eating, which has declined as family sizes have shrunk and more people live alone. Again, such activity takes place outside the monetary economy, kitchen space is not rented, teachers are not paid a wage, meals do not have a price. Rather, such activity can also be placed within a mutual or gift economy. Further, cooking and eating together is of great social benefit, but also achieves environmental benefits since cooking is responsible for a large proportion of the energy spent on food production and consumption. Such schemes arguably contribute to resilience as they expand member's skills and food preparation repertoires, and develop mutual aid networks that can be called upon in times of shock or need.

Productive gardens

Finally, the Stroud community features a relatively high proportion of gardens adapted for food production rather than mere aesthetic enjoyment. A recent initiative by Transition Stroud, Stroud's Edible Open Gardens, has seen this further aspect of the informal local food system celebrated and encouraged: 'The gardeners and allotment holders open their gardens for free in the hope that their knowledge and interest will encourage people to grow more of their own fruit and vegetables. There will also be more free workshops over the weekends on chicken keeping, composting, making your own polytunnel and more.' This year, there are plans for thirty five sites to open, including twelve sites which did not open in the first year the event took place.[26] A recent article in *Permaculture* magazine, highlighting work by Jeavons, suggests that 'Britain Can Feed Itself' in terms of potatoes and other vegetables on 16.6 per cent and 21.3 per cent of private garden space respectively (in other words, in less than half – 37.4 per cent – of private garden space in total). Similar claims regarding the contributions of allotments and productive gardens were made over one hundred years ago by Kropotkin, in a book outlining his research into, and proposals for a mutual food system:

> In agriculture, as in everything else, associated labour is the only reasonable solution… 200 families, if they consider themselves, say, as tenants of the nation, and treat… 1,000 acres as a common tenancy… would have, economically speaking, from the point of view of the agriculturalist, every chance of succeeding… On an area of 340 acres they could most easily grow all the cereals – wheat, oats, etc. – required for both the thousand inhabitants and their livestock… They could grow on 400 acres, properly cultivated, and irrigated if necessary and possible, all the green crops and fodder required to keep the 30 or 40 milch cows which would supply them with milk and butter, and, let us say, the 300 head of cattle required to supply them with meat. On 20 acres, two of which would be under glass, they would grow more vegetables, fruit and luxuries than they could consume. And supposing that half an acre of land is attached to each house for hobbies and amusement (poultry-keeping, or any fancy culture, flowers, and the like) – they would still have some 140 acres for all sorts of purposes: public gardens, squares, manufactures and so on. The labour that would be required for such an intensive culture would not be the hard labour of the serf or slave. It would be accessible to everyone, strong or weak, town bred or country born; it would also have many charms besides. And its total amount would be far smaller than the amount of labour which every thousand persons, taken from this or from any other nation, have now to spend in getting their present food, much smaller in quantity and of worse quality… The amount of labour required to grow food under such a rational culture is so small, indeed, that our hypothetical inhabitants would be led necessarily to employ their leisure in manufacturing, artistic, scientific and other pursuits.[27]

It is hard to examine how widely such proposals resonated and the reasons for their failure to take root in the UK on a wider scale than represented by the remnants and experiments described above, but the expansion of a market-oriented and profit-seeking food system, aided by state support and power, are undoubtedly contributory factors.

Current work towards such a mutual UK food system is present not only in ostensibly 'friendly' initiatives such as those outlined above, but in radical and confrontational activity. Squatting of land for food production and community building, as at the Grow Heathrow project that forms the heart of the Transition Heathrow initiative for instance[28], is arguably a growing phenomenon (despite ongoing attempts to prevent, and indeed criminalise, squatting in the UK). The landless poor in the UK, as in the majority world, are beginning to adopt the radical tactics of necessity in order to access land for subsistence, as has become widespread in countries such as Brazil (through the Movimento Sem Terra).

We have not included the Midcounties Co-operative supermarket outlets in this picture, but it does provide the opportunity for Stroud people to ensure that all their food purchasing is made outside the corporate food system. Similarly, a Waitrose supermarket where profits are shared with worker-partners in the form of bonuses, as part of the John Lewis Partnership, is not included in this survey, but again hints at more mainstream alternatives to the prevalent UK food production and distribution system.

This section has focused on individual co-operatives and community enterprises, but looking at the local food economy as a whole we can begin to see interactions and synergies between them. For example, members of Stroudco food co-operative can join with other members of informal wholefood co-operatives to collect their weekly orders; produce from community allotments can be sold in community shops; the Make a Meal of It shared eating groups order two weekly 'shares' from SCA; and during gluts, food from the community farm that is in excess to that which can be shared between members is sold at local farmers' markets (both Stroud and the next closest market Gloucester). Perhaps most importantly, people involved in any of these enterprises begin to think about the way they access their food in a different way. Rather than the thin exchange of money for goods that takes place in a supermarket, they come to expect to make more effort but obtain more reward through playing an active part in their local food economy. Relationships between consumers and producers come to be characterised at least partly by mutual aid and escape the monetary economy. Eating becomes an engaged act of relationship with your local producer and your local soil, and the local environment, rather than a disconnected market activity.

Co-operation and resilience in local food systems

In defining what a resilient food system might look like we suggested three indicators: a dynamic responsive approach to vulnerability; an acceptance of the need for flexibility within the productive system; and an ability to adapt. We suggest that these three characteristics are all more likely to be found in co-operative enterprises and are evident in the Stroud local food economy.

In terms of the meaning of vulnerability, the food economy offers us a useful opportunity to explore this. At present the global food distribution network is tremendously powerful, economically and technologically, yet as already argued it is not resilient and relies on cheap supplies of fossil fuels which will not be available in the long term. Yet against the backdrop of a small semi-rural town within a district of around 110,000 people the massive provision by supermarkets, of which we have the full house (in addition to the Co-operative and Waitrose stores mentioned, a 24-hour Tesco, Sainsburys, Morrisons, and other smaller chains) can appear daunting and unassailable. In spite of the role played by the Ruscombe village shop during the winter of 2010–11, it was actually the supermarkets which remained open, and although their shelves were sometimes empty, their lorries did not stop arriving in the town. However, these centralized distribution systems appear as dinosaurs in the era of climate change and peak oil, indicating precisely how vulnerable our food systems actually are. SCA managed to provide its members with their normal share throughout the winter: the commitment of the farmers to chipping frozen ground away from leeks and parsnips helped to build the relationship with members, who were able to walk to the farm to collect their food during times when many roads were closed.

Some of the most resonant questions being asked in this era of economic crisis are about the sharing of value within the economy. The capitalist model enables the extraction of value from productive systems by shareholders, who usually have no engagement whatever with the business they invest in. In terms of food production this has certainly added to vulnerability, especially in terms of the number of local producers. The downward pressure on farm incomes, brought about by an increased volume of trade and competition for profits and market share, has meant that many farmers in the Stroud Valleys no longer actively farm their land, with the production of vegetables and fruit being much lower than would be necessary for self-sufficiency, as is the case across the UK. While there is a considerable amount of accessible farmland, and nearly half of it in small farms (less than 5 ha), as a result of high labour costs and subsidy incentives, it is mostly left as grazing land (though the appropriateness of soil does play a part in agricultural decisions). This is where co-operative food ventures are able to offer a better model: the community-agriculture system has enabled the creation of 2.5 average-salary jobs and to provide seasonal vegetables throughout the year to nearly two hundred families. This is an indication of how farming does become economically viable once the market model is superseded by a co-operative or mutual-aid model.

In several of the projects profiled above we see evidence of the sort of flexible organisation that would be dismissed as redundancy in a market system. For example, community shops would not be viable without voluntary labour, and often see very low rates of turnover. Yet they play a crucial social function in the villages where they are found, as often the only remaining community hub. They also provide an outlet for very small-scale local production which would not be considered by local shops. Although scale economies make sense within distribution systems focused on profit, the small-scale production of allotments or gardens fits into a co-operative food system. Similarly, the very small-scale production which many of Stroud's food enterprises involve could not be part of a market system, whether we are thinking about the community orchards or Stroud Community Agriculture. The local connections, both social and ecological, that these sorts of co-operative food enterprises foster are the very connections that the globalised, corporate food system has undermined, with its focus on economies of scale to reduce financial costs while increasing human and environmental costs. So in moving towards a sustainable and resilient food system these very qualities, which thrive within co-operative food systems, are going to be essential.

Perhaps most importantly, increased food price volatility caused by speculation does not affect a co-operative local food economy. Those who grew their own food on community allotments were able to significantly mitigate the increase in food prices in 2008, in some cases to entirely circumvent them. Similarly, the monthly price for a share at SCA did not rise, although it will have to rise marginally eventually in response to the rise in fuel prices and the need of the farmers to have higher incomes to cope with rising prices for their energy and water supplies. However, the 'food crisis' was an object lesson in how a local food economy – a provisioning system that connects people to their local land which provides them with food – is entirely insulated against the vagaries of the global food roller-coaster. The extent to which communities which are not insulated from such impacts respond in ways akin to the 'food riots' in the developing world is an open question. With rioters often found looting basic food items, the recent August 2011 riots in the UK would suggest that dismissing such a possibility would be naive. Whether such civil unrest would combine with radical social movements squatting land as a more constructive solution to their food needs, and lead to the spread of a co-operative food economy through radical grassroots action is a further open question that is beyond the scope of this chapter.

In calling for local food we should make it clear that we do not ignore problems that exist in distribution; in particular, how to adapt systems in order to meet the needs of the world's poor. We reject the argument that to solve the problem of poverty it is necessary to encourage more of the world's subsistence farmers into global trading networks. Evidence from the United Nations' trade body UNCTAD suggests that the evidence of positive impacts from global trade for the world's poorer countries is mixed at best.[29] While there were some benefits in terms of job creation, these were undermined by the greater costs local people faced in buying food, which could mean the displacement of resilient peasants into insecure employment or unemployment. Lines goes further, arguing that the global trade system is itself causing poverty.[30] The terms of trade facing the poorer nations, especially those in Africa and those without trading ports, have deteriorated significantly over recent years. The winners from globalization of food production in these societies have been the middle men, exactly those people who would have no place in a co-operative food system. So the proposal we are making for local, co-operative food systems applies equally in the world's poorer countries as it does in the richer ones.

Nor are we suggesting a diet consisting entirely of indigenous crops; for the proportion of food that continues to be traded there is again a co-operative answer: fair trade. It is rural co-operatives around the world, producing cocoa or coffee, tea or bananas, which put the 'fair' into 'fair trade'.[31] Hence it is no surprise that The Co-operative Group was the supermarket chain that first popularised fair trade in the UK, nor that the wholefood co-operatives that deliver to Stroud's local food co-operatives stock a wide range of fair trade products. So when a local food economy is not enough, there are also co-operative solutions to ensure that environmental and social standards of provisioning are maintained. It is further clear that environmental forms of long distance transportation for certain products are entirely feasible: sail power defined global trade until only relatively recently. While this trade was defined by a distinctly non-co-operative model during the colonial era, there is no reason why new moves in this sphere should not benefit from the same co-operative models and mutual/gift economy lessons outlined for the initiatives given attention above.[32]

Conclusion

In this era of crisis for globalised trade, and with the free-market as the dominant organising model for our (global, national, and local) economies, we would suggest that the strength and resilience of local food systems should be celebrated. More importantly, it should be recognised that in many cases, whether we are thinking about community farms or farmers' markets, what makes for successful local food systems is a co-operative form of organisation. At the global level, and for foods which for reasons of climate it is not possible to produce locally, there is also a co-operative solution in the form of fair trade. Here, the Co-operative food shops have led the way.

It must be apparent that part of the purpose of the local food co-operatives in Stroud is to rebuild connections between people, and between people and their local land. The five-year project to stimulate and support local food production Making Local Food Work, which is coming to an end in 2012, had as one of its aims 'to reconnect people and land through local food by increasing access to fresh, healthy, local food with clear, traceable origins' and several of the strands, including support for collaborative farmers markets and community-supported agriculture linked the mutual organisation of enterprise with the environmental focus on rebuilding connections with our local soil. We see the disconnection that the globalisation of food has brought as being one side of the coin, while the failure to return the value of production to the producers and its extraction in profits has been the other side. The aim of 'reconnecting people and land' is crucial to thriving local food economies and requires co-operative organisation of productive enterprises as much as it requires a closer connection of people with their local natural environments.

Endnotes

[1] Defra, *Ensuring the UK's Food Security in a Changing World* (London, 2008).

[2] R. Bickle and M. Cato, 'A Co-operative Path to Food Security in the UK', *Journal of Co-operative Studies*, 43 (2010), 4–15.

[3] C. S. Holling, 'Resilience and Stability of Ecological Systems', *Annual Review of Ecology and Systematics*, 4 (1973), 1–23.

[4] S. S. Luthar and D. Cicchetti, 'The Construct of Resilience: Implications for Interventions and Social Policies', *Development and Psychopathology*, 12 (2010), 857–85.

[5] S. Cutter, *Hazards, Vulnerability and Environmental Justice* (London, 2006).

[6] D. Omand 'Developing National Resilience', *Royal United Services Institute Journal*, 150 (2005), 14–18.

[7] W. N. Adger, 'Social and Ecological Resilience: Are They Related?', *Progress in Human Geography*, 24 (2000), 347–64, p. 354.

[8] J. Barry, *The Politics of Actually Existing Unsustainability: Human Flourishing in a Climate-Changed, Carbon-Constrained World* (Oxford and New York, 2012), p. 64.

[9] Barry, *The Politics*, pp. 64 and 78.

[10] Barry, *The Politics*, p. 78.

[11] C. Folke, 'Resilience: The Emergence of a Perspective for Social–Ecological Systems Analyses', *Global Environmental Change*, 16 (2006), 253–67.

[12] C. Ward, *Diesel-Driven Bee Slums and Impotent Turkeys: The Case for Resilience* (n.p, 2007).

[13] Holling, 'Resilience and Stability of Ecological Systems', p. 18.

[14] J. Norburg, J. Wilson, B. Walker and E. Ostrom, 'Diversity and Resilience of Social-ecological Systems' in J. Norburg and S. Cumming (eds), *Complexity Theory for a Sustainable Future* (New York, 2008), p. 46.

[15] Barry, *The Politics*, p. 109.

[16] M. Millar, D. Paton and D. Johnston, 'Community Vulnerability to Volcanic Hazard Consequences', *Disaster Prevention and Management*, 8 (1999), 255–60.

[17] C. A. Perrings, 'Resilience and Sustainable Development', *Environment and Development Economics*, 11 (2006), 417–27, p. 418.

[18] Defra (Food Chain Analysis Group), *Food Security and the UK: An Evidence and Analysis Paper* (London, 2006).

[19] IPCC Working Group I, the Physical Science Basis, available here: www.ipcc.ch/publications_and_data/ar4/wg1/en/ch11s11-9-4.html (downloaded 22 February 2012).

[20] M. McCarthy, 'Sea levels rising twice as fast as predicted', *The Independent*, 11 Mar 2009.

[21] A. Becker, M. Fischer, B. Schwegler and S. Inoue (2011), 'Considering Climate Change: A Survey of Global Seaport Administrators', *Centre for Integrated Facility Engineering*, Working Paper 128 (Stanford, 2011).

[22] F. Macmillan and D. Cockcroft, *Food Availability in Stroud District: Considered in the context of climate change and peak oil* (Stroud, 2008).

[23] For more details on adapting Stroudco to other communities contact nick@stroudco.org.uk.

[24] M. Perry and J. Alcock, 'Community Owned Village Shops: A Better Form of Business', *Journal of Co-operative Studies*, 43 (2010), 37–45.

[25] For more information on this co-operative, contact member James Beecher jabeecher@cardiffmet.ac.uk.

[26] For more information see: http://edibleopengardens.org.uk/.

[27] P. Kropotkin, *Communism and Anarchy* (1901).

[28] For more information see: http://www.transitionheathrow.com/grow-heathrow/.

[29] D. Tussie and C. Aggio, 'Economic and Social Impacts of Trade Liberalization', UNCTAD report available here: http://www.unctad.info/upload/TAB/docs/TechCooperation/fullreport-version14nov-p106-119.pdf (downloaded 27 February 2012).

[30] T. Lines, *Making Poverty: A History* (London, 2008).

[31] A. Bibby and L. Shaw (eds), *Making a Difference: Co-operative Solutions to Global Poverty* (Manchester, 2005).

[32] http://svtreshombres.homestead.com/ and http://www.fairtransport.eu/.

A 'member-owned business' approach to the classification of co-operatives and mutuals

Johnston Birchall

6. A 'member-owned business' approach to the classification of co-operatives and mutuals

Johnston Birchall

Introduction

Co-operatives are defined according to co-operative principles and an identity statement endorsed by the International Co-operative Alliance (ICA). The essay argues that this is too much taken for granted, and that more work needs to be done. It provides a brief history of the co-operative principles, showing how the ICA has codified and periodically revised them. It discusses several difficulties with this approach and suggests an alternative based on the concept of member-owned businesses. Three main stakeholders are identified and the different types of co-operative are put into a comprehensive classificatory system. Co-operatives are placed firmly in the category of 'private sector' rather than in categories that privilege the social over the economic. It suggests co-operative federations should adopt a member-ownership framework, extend a welcome to other types of member-owned business, and through this approach align their membership and business strategies.

Co-operative and mutual businesses are a large part of the economy of most developed countries, despite the trend towards demutualisation in some sectors.[1] A project undertaken by the International Co-operative Alliance (ICA) has identified the top three hundred co-operatives and calculated their combined turnover at around USD $1.6 trillion, around the same size as the economy of Canada.[2] In some sectors they have become recognised as an important alternative to investor-owned businesses; the banking crisis has shown how resilient co-operative banks and credit unions can be, and how their risk-averse way of doing business has advantages for the economy as a whole.[3] In the less economically developed countries, they are making a significant contribution towards meeting the Millennium Development Goals.[4] In Africa in particular they are resurgent, and are now growing strongly.[5] In Africa and Asia a reform process is underway that is restoring their autonomy after several decades of too much interference by governments and political parties.[6]

It might be thought that the question of how to define a co-operative has been settled once and for all by the co-operative principles and the co-operative identity statement proclaimed by the ICA at a General Assembly in 1995.[7] The identity statement defines a co-operative as:

> 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.

The principles include:

1. Open and Voluntary Membership
2. Democratic Member Control
3. Economic Member Participation
4. Autonomy and Independence
5. Education and Training
6. Co-operation Amongst Co-operatives
7. Concern for Community

These were endorsed by United Nations' *Guidelines*[8] and by the International Labour Office's *Recommendation 193*[9], and have been written into many co-operative laws around the world.[10] In the view of most commentators the subject is no longer open for debate; we just have to get on with promoting good laws that reflect the international consensus. Yet there are good reasons why we should not take the current set of principles for granted, and should be prepared to do more work on the subject.

This essay begins by providing a brief history of the co-operative principles, showing how they were derived from the Rochdale Pioneers co-operative society and how the International Co-operative Alliance took charge of their codification, interpretation and occasional revision. It then discusses several difficulties with this approach to defining a co-operative. It has been a largely consensual process, but other possible principles have been left out. It has suited consumer more than producer and worker co-ops. Some principles are more important than others, and constitute an irreducible core. They do not help to provide a classification of all the different types of co-operative, and the identity statement perpetuates an unhelpful duality between the member association and the co-operative business.

The essay then provides an alternative approach based on the concept of member-owned businesses, in which three main stakeholders are identified and different types of co-operative are put into a quite comprehensive taxonomy. It discusses various complications that arise when using this classificatory system, but concludes that it can cope with these without having to be revised significantly. The essay then goes on to discuss what follows from this approach. Co-operatives are not all that different from other member-owned businesses (MOBs). However, this does not mean they are less significant, and a kite marking system is suggested that would enable MOBs to be rated on their performance in relation to the logic of member-ownership. This approach helps to shed light on issues such as partial ownership, rewards to investors, and the relationship of membership to wider community ownership.

The essay then goes on to consider where the MOB approach places the co-operative sector. It is firmly in the category of private sector rather than social economy or social enterprise; categories that tend to privilege the social over the economic. Yet it argues that MOBs have the potential to transform the meaning of 'economic' to include the social. The essay suggests that co-operative federations should adopt a member-ownership framework for the understanding of what is a co-operative, extending a welcome to other types of MOB such as mutuals and perhaps even developing a 'kite mark' for co-operatives. It suggests this approach should also enable co-operatives to unify their work on membership and governance with their business strategies.

A brief history of co-operative principles

Before we begin a more critical analysis, it may be useful to look briefly at the history of co-operative principles. The 1995 revision of the principles was in fact the third that the ICA had undertaken, the first being in 1937 and the second in 1966. The original reference point for these revisions was the set of principles established by the Rochdale Pioneers, who founded the first successful consumer co-operative in 1844.[11] Their historian, GJ Holyoake identified nine Rochdale principles. These are listed in the table below, from which it is clear that, while some were codified early on, others were only written down up to sixteen years later, and some were taken for granted but not written down at all. One might say that Holyoake created a tradition, providing a 'script' for co-operatives to use that was inherited by member organisations of the ICA. Some were fundamental to the idea of co-operation (democracy, limited return on capital, political and religious neutrality), while some applied more to consumer co-operation (the 'dividend' principle, sale of unadulterated goods, cash trading).

Table 4 – The nine co-operative principles identified by GJ Holyoake

1. Democracy (that is one person one vote, not mentioned in the 1844 rules but appearing in the rule revision of 1845).
2. Open membership (but limited to 250 until the 1852 Industrial and Provident Societies Act gave proper legal status).
3. Fixed and limited interest on capital (written in from the beginning, as it was one of Robert Owen's principles).
4. Distribution of the surplus as dividend on purchases (a recognised practice not written down).
5. Cash trading (another recognised but unwritten practice).
6. Sale of only pure and unadulterated goods (practiced, but not written down until the Almanac of 1860).
7. Education (in the 1854 statutes).
8. Political and religious neutrality (assumed from the start but unwritten).
9. Disposal of net assets without profit in the event of the society being wound up (added in the 1854 statutes).

When the ICA came to codify its principles in 1937, it distilled the Rochdale principles into seven: open membership, democratic control, distribution of surplus in proportion to trade, payment of limited interest on capital, political and religious neutrality, cash trading and promotion of education.[12] Interestingly, it declared that the first four were essential but the last three less binding (a point we will come back to later). By then the fifth principle of neutrality had become seriously compromised: the co-operative unions of several Western European countries had long been organised along political or religious lines. The sixth principle of cash trading had lost its moral authority and was looking more like a business method than a principle. The seventh principle, promotion of education, had always been more of an aspiration than a requirement. The ICA also identified two further principles that were felt to be implicit in co-operative practice: voluntary membership and mutuality (trading only with members). However, it could not press these on its member organisations as there was a lack of voluntariness among its members in the Soviet Union and a lack of mutuality in consumer co-operatives almost everywhere.

This formula remained unquestioned until at the 1963 Congress the Soviet delegates asked for another update. The process of revision could have opened up a serious split between East and West at the height of the Cold War, but a commission managed to produce a unanimous report.

It was based on a questionnaire survey that showed there was a common co-operative philosophy and a clear continuity with Rochdale.[13] At the 1966 Congress, six essential principles were identified: open and voluntary membership, democracy, limited interest on capital, equitable return of surpluses to members, provision of education and co-operation between co-ops. Not surprisingly, political and religious neutrality was dropped.

By the time of the third revision in 1995, the emphasis had shifted to the need to reform co-operatives in the developing countries in response to the process of economic liberalisation that was taking place.[14] A similar process of consultation with the members was undertaken over the five years between 1990 and 1995, and at the Tokyo Congress a consensus was achieved. The 'limited interest on capital' and 'equitable return of surpluses' principles were rewritten into a more universal 'member economic participation' principle, others were updated, and a new 'concern for community' principle was added. The main change was in the emphasis on 'autonomy and independence'; this was a direct challenge to co-operative sectors that were still dominated by governments or political parties. It allowed United Nations agencies to rework their advice to promoters emphasising the need to develop autonomous co-operatives, and led to a worldwide revision of co-operative laws.

Some difficulties with an approach based on co-operative principles

It would seem self-evident that this approach, whereby the ICA has custody of the definition of a co-operative and periodically subjects it to reflection and revision, has validity and is the obvious way to generate a definition of a co-operative. However, there are at least five reasons why the co-operative principles and identity statement as they stand are not adequate. First, other possible principles have been left out. The eventual seven principles settled on in 1995 were the result of a highly participatory process. However, at the Tokyo General Assembly the principle of employee participation was strongly advocated but was voted down. Concern for the environment could have been one of the principles and may well be added in the future. At the moment, there are strong lobbies within the ICA membership for employee participation and environmental sustainability to be added. This shows that the ICA principles are a social construct, the outcome of a process of deliberation that took place among a particular set of people at a particular point in time. They cannot be set in stone and will probably be revised again in the future.

Second, the principles have always suited consumer co-operatives better than other types, particularly worker co-ops. European worker co-operatives have preferred to use a set of four principles defined for them in the 1830s by Philippe Buchez: one person one vote, a return on surpluses proportional to work done, indissoluble capital, and eligibility for full membership after a probationary year.[15] In 1987, eight years before the ICA revised its principles, the Mondragon co-operatives signed up to a set of ten principles including: open admission, democratic organisation, sovereignty of labour; the instrumental and subordinate nature of capital, participatory management, payment solidarity, inter-cooperation, social transformation, universality, and education.[16] American farmer co-operatives refer to a simpler set of three principles first identified by the Co-operative Department of the US Department of Agriculture: member ownership, control and benefit.[17] Some people think this must be a sign that they are not as committed as others, but this would be a mistake; there is still a strong commitment to membership among most US farmer co-ops. It could be argued that, if the ICA had adopted these three principles as fundamental and then added some secondary principles, perhaps more co-operative apex bodies could have been persuaded to become members. We could have had a more unified and representative ICA. On the other hand, recent additions to the ICA membership list (such as the Raiffeisen Union) show that the seven principles as they stand are no stumbling block to membership for organisations that have a different intellectual and cultural history.

Third, the principles are not all of the same type. Just as the ICA in 1937 identified four key principles and three less essential ones, one can argue about the current principles that the first four carry more weight than the last three. The fourth principle (*autonomy and independence*) is logically prior to any other principle as it establishes that what we are considering are separate business entities. Then, arguably next in order of importance comes *democratic member control*; this incorporates the principle of 'one member one vote' in primary co-operatives, which is fundamental to ensuring that these are people-centred rather than capital-centred businesses. Logically, *member economic participation* follows from this, since members who have an equal vote are likely to allocate surpluses in a fair way (usually by linking dividend to usage, but also by agreeing on other methods such as equal shares, or a community dividend). *Voluntary and open membership* establishes the basis for individual membership, ensuring that people have the opportunity to join and to join of their own free will. Together these four principles are fundamental in establishing the ownership structure of co-operatives as member-owned businesses. The others (education, training and information; co-operation between co-operatives; and concern for community) are aspirations that may or may not be realised. It is possible to envisage a co-operative that does not meet our expectations in these respects but that can still be called a co-operative. It follows that principles five to seven are less fundamental and are not needed for the basic answer to the question 'What is a co-operative?'

Fourth, there is another problem with the ICA principles; they do not help us to classify types of co-operative. The lack of an agreed taxonomy has severe operational effects worldwide and continually impairs the presentation of the co-operative business option. Each country has its own classification system that has grown up in an ad hoc way and cannot be aggregated with others. It may rely on distinctions between different type of member (consumer, producer, employee), different type of sector (handicraft, production, industrial), or type of co-operative (agricultural, consumer, credit), or a mixture of all three. This means that international statistics on the numbers of different types of co-operative are difficult to create. Some apex bodies such as the International Co-operative and Mutual Insurance Federation and the Association of European Co-operative Banks have classified their own membership, but more work needs to be done to provide a consistent classification across categories.

Fifth, the co-operative identity statement is generally useful, but it perpetuates an unhelpful distinction. It begins with 'an autonomous association of persons' that establishes the basic requirement of autonomy. Then it refers to the first three principles that are required if a business is to be member-controlled; it is member-owned and controlled, and by implication, benefits members by meeting their common needs and aspirations. By not mentioning the last three principles it strengthens the argument that there are really four primary and three secondary principles. The identity statement has had a profound impact internationally in making the idea of co-operatives accessible. It has been written into many laws and it is probably the best definition we can find. However, it also contains a hidden assumption that there are two organisations – an association of persons and an enterprise. This is an approach that has often been taken by academic researchers and that has a long intellectual history, but it can be unhelpful and misleading. It tends towards a pessimistic view that there is a built-in tension between democratic structure and business strategy, whereas a more modern approach integrates these, seeing the value of good governance and treating members as an asset rather than a liability. The work of Tushaar Shah is particularly important here, and deserves to be better known. In a very big study of co-operatives in several states in India, carried out in the early 1990s, he found that the successful co-ops were the ones that aligned the needs of the members with the organisation's purposes; good governance by boards and responsive management followed on from this basic emphasis on meeting members' needs. In the successful co-operatives, there was no need to contrast an association of persons with a business enterprise; the two parts were fully integrated into one member-owned business enterprise.[18]

The Member-owned Business (MOB) approach

If these arguments about the limitations of a definition based on co-operative principles are accepted, then we have to find a different approach that will provide:

- a definition that everyone is likely to agree on;
- a consistent classification of types of co-operative;
- a unified vision that avoids the splitting of the organisation into two (an association and an enterprise).

The proposed alternative begins from the idea of the member-owned business (MOB). It consists of a two-stage definition that leads to a comprehensive typology.

Definition stage 1: a co-operative is one type of business ownership among others.

Why do we want to define a co-operative? In order to distinguish it from other ownership types we have to label it, otherwise we miss the significance of ownership altogether and go straight to other kind of distinctions such as business sector or size of firm. For instance, retailers can be family-owned, franchised, investor-owned or co-operatively owned but if we fail to make the ownership distinction they are just treated as retailers. For some purposes this is all that is needed, and economists can get a long way without analysing ownership types at all. However, there are good reasons for believing that ownership matters.

First, ownership brings benefits to one stakeholder rather than another. If a firm is owned by investors, they can appropriate the profits and benefit from increases in share values. Nobody else can do so. If, on the other hand, it is owned by the employees, or by customers, or by other firms that rely on it for their business, they take the profits (though they do not benefit from share value as usually shares are not traded). Further, they can decide not to pursue profit but to give priority to other aims; consumers may value the quality of the product, employees decent working conditions and producers the quality of inputs to their businesses or effective marketing of their products.

Second, ownership gives control over the business to one stakeholder rather than another. There are always conflicts of interest between different stakeholders. They cannot all maximise their return from the business. If some interests were not excluded from ownership the business would lack direction and the costs of governance would be too high. More positively, ownership by stakeholders who rely on the business not just for profit but to meet basic needs enables the business to be ‘people-centred’ rather than money-centred. (There are some reservations though. In modern business organisations managers have a lot of power regardless of the ownership form the organisation takes; it can be argued that a ‘managerial revolution’ has taken place that makes ownership less relevant. In consequence, ensuring effective governance is a problem for all types of business except those owned by individual owner-managers).

Third, there are always costs incurred in bringing one set of stakeholders or another into ownership. Stakeholders who are left outside have to rely on contracts that carry transaction costs, while those on the inside have to bear the costs of governance. Member-ownership provides a different mix of costs that, under the right circumstances, makes a firm more competitive. For instance, mutual life insurers have an inherent advantage over investor-owned equivalents, as they do not have to decide how to allocate profits between with-profits policy holders and investors. Clearly, other things being equal, policy-holders will gain from controlling the business as members. Related to this is the cost of regulation. In potentially monopolistic industries such as supply of utilities, and in sectors that rely on long term contracts such as provision of pensions, investor-ownership needs heavy regulation by governments to safeguard the interests of customers. Mutual water companies and electricity co-operatives align the interests of customers more closely with the aims of the business.

Fourth, the existence of diverse ownership structures has wider systemic effects. It can be argued that markets that include owners other than just investors provide more choice to consumers, help prevent monopoly, provide room for innovation and generally keep investor-owned businesses competitive. The demutualisation of the building society sector in UK was opposed by critics who warned of the dangers of an investor-dominated banking system. Anyone who doubts the importance of ownership should note how struggles over demutualisation have intensified – it is now clear that it is 'fought out' by interested parties who have a lot to gain by the outcome.

Definition stage 2: Co-operatives are member-owned businesses

A co-operative is a member-owned business. Here is a simple classification. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In an MOB, usually one of these other stakeholders is put at the centre of the business. This gives us three classes: consumer-owned, producer-owned and employee-owned businesses. The advantages to stakeholders of co-operating are obvious; together they can channel the value added from the business to themselves rather than to investor-owners or to 'middlemen'. Consumer OBs provide people with consumption goods at the lowest possible price and with a guarantee of good value, and so make their income go further. Producer OBs enable self-employed people and family businesses to gain the strength in numbers they need to survive in the market. Employee OBs provide people with an income, but also are a way of gaining control over the conditions under which they labour, providing what the International Labour Organisation calls 'decent work'.

A straightforward definition of an MOB follows: it is

> a business organisation that is owned and controlled by members who are drawn from one (or more) of three types of stakeholder – consumers, producers and employees – and whose benefits go mainly to these members.

We can use this classification to list the different types of MOB in the same way that scientists identify individual genera within a class, and species within a genus (see table below). If a new species of MOB were to evolve, we ought to be able to fit it into an existing genus or class. Also, if an MOB allows some ownership by investors or government, or has some of the features of an MOB and some of another type, it can usefully be called a hybrid.

Table 5 – A suggested taxonomy of member-owned businesses[19]

CLASS	GENUS	SPECIES	HYBRIDS
Consumer owned	General retailing	Consumer co-ops: food, staple goods	Jointly owned business with other retailers
Consumer owned	Specialist retailing	Consumer co-ops: pharmacy, funerals, travel, garage services, etc	Joint ventures
Consumer owned	Insurance	Friendly societies, mutual assurance, life insurance, health insurance	
Consumer owned	Housing	Market value, limited equity and non-equity housing co-ops	Community housing associations (Scotland)
Consumer owned	Utilities	Electricity, water, telecoms co-ops	Joint ventures with local govt
Consumer owned	Education	Child care co-ops, co-operative schools (Sweden)	Schools with multi-stakeholder governance, foundation health trusts (England)
Consumer and producer owned	Banking	Co-operative banks, credit unions, savings and credit co-ops	Mutual savings banks (US)
Producer owned	Primary producer coop	Farming, fishery, forestry (supply, marketing and/or processing)	Several hybrids introducing investor owners
Producer owned	Retailer-owned wholesaler	Supermarkets, hardware stores, pharmacy	Jointly owned business with wholesalers
Producer owned	Shared services for self-employed, small business & professionals	A wide variety, including taxi drivers, artisans, market traders, dentists co-operatives	Minority producer-ownership in an IOB
Employee owned	Continuum: simple labour co-ops to conglomerates	A wide variety of sectors	Employee share-ownership schemes

This approach to classification is not perfect, but it is a significant advance on other classifications in use. Traditionally, in different countries a classification of co-operatives has grown up that reflects the particular history of co-operatives in that country, so that an ad hoc list will be created that then forms the basis for published statistics. In Sri Lanka the list includes coconut co-ops and school co-ops, while in Vietnam it includes handicraft and tourism co-ops. Such listings are potentially endless, and their classifications say nothing about the underlying ownership structure. Often co-operatives are grouped into broader types such as industrial or producer co-ops, but these types can obscure the difference between, for instance, shared service co-ops for self-employed people and employee-owned co-ops. Sometimes the confusion goes all the way up to the international level; the International Organisation of Industrial, Artisanal and Service Producers' Co-operatives is, as the name suggests, an accretion of co-operatives who have in common only that they produce things or provide services. By separating out different stakeholders we can at least see whose interests the co-operative is supposed to be promoting.

So far we have not defined what we mean by a member-owned *business*. We could just call it a *company*, but this has too narrow a definition, excluding organisations not registered under company law but as co-operatives or associations. Economists tend to use the word *firm*, but this implies organisations that are large in size and leads to cumbersome terms such as 'proprietary firms' (for investor-owned businesses) and mutual firms (for member-owned businesses). The term 'business' is broader but it is also imprecise. Used as a noun it can mean the kind of occupation one is in, the purchase and sale of goods to make a profit, the volume of trade achieved, or a building where trade is carried on. The best definition is *an organisation that is engaged in commerce*. All the organisations identified in the above taxonomy are engaged in commerce, though the ones that rely heavily on public sector grants (co-operative schools, non-equity housing co-ops) are less often described in this way. The nearer an organisation gets to providing a public service the more awkward this definition becomes, and yet people who run such organisations do sometimes remind themselves and others that they are, essentially, running a business.

What is it that makes some people resist using the term 'business' (and resist even more the related term 'commerce')? There is a clue to this in the way it is used as an adjective (*business-like*), to imply a judgement as to whether an organisation is run efficiently or has a particular set of values. Nobody complains when someone claims their organisation is 'business-like', meaning efficient or effective. It is the implied set of values that causes the unease. To run an organisation as a business can imply that it puts profit before service, or makes decisions based on financial considerations rather than human needs. However, the advent of the new public management in the delivery of public services has made it harder for delivery agencies to avoid commercial considerations. The linking of public grants to demand from consumers, the opening up of services to competition, the increasing use of performance measures and inspection, all lead to commercialisation. We are all 'businesses' now. The term 'community business' shows that the term is becoming more morally neutral, and so we can included it in the definition of a MOB without implying particular values.

Some complications to the MOB taxonomy

Of course, it is not quite that simple. There are several complications in the MOB approach. First, though most MOBs are 'single-stakeholder' in nature, the people who join them can have more than one identity, being at the same time producers as well as consumers, or employees as well as customers. Farmers are both producers and individually consumers, and so agricultural supply co-operatives often provide them with consumer goods as well as farm inputs. Some of the people who need banking services have their own businesses, and so have both business and personal accounts. The employees of consumer co-operatives are also customers, and so are allowed to become members (though there are rules that prevent them from being in a majority on the board).

Second, in some MOBs more than one type of person can join. Insurance mutuals that set out to insure farmers often extend into general assurance for householders. Credit unions often have in membership individual customers and small businesses. Savings and loan societies often have two categories of member; savers and borrowers.

Third, it is not always possible to distinguish clearly between producer-OBs and employee-OBs. The Mondragon co-operatives are owned by their 'workers' but as self-employed people they have something in common with members of producer co-ops, such as farmers or retailers. In the UK, co-operatives that are set up by professional people such as architects, graphic designers or investment managers may be limited liability partnerships or worker co-ops; what is important is that the MOB helps people to be productive and to share the costs of production. Similarly, in developing countries handicraft co-operatives are common, and it is often unclear whether their workforce is employed or self-employed. We cannot just call them all producer co-ops, because there is a whole class of employee-owned businesses that have been acquired by their employees from a previous owner or in a gradual buyout through employee share ownership plans.

Fourth, a few MOBs are multi-stakeholding. They deliberately offer different categories of membership to more than one stakeholder. The Eroski retail co-operative in Spain has employee and customer members. The social co-operatives in Italy that provide care services to disabled and vulnerable people are, by law, required to offer membership to employees, service users and carers. However, multi-stakeholder OBs are quite rare; probably because in taking such different interest groups into membership they increase the costs of governance. They tend to occur in sectors that have some of the characteristics of 'publicness' such as health care and social care, where incorporating different interests is seen as more important than being 'business-like'.

Fifth, MOBs come with different labels attached. They are called variously, *co-operatives*, *mutuals*, and *economic associations*. These terms are almost synonymous but not quite. *Co-operatives* trace their origins to the 'Rochdale Pioneers' in 1844 and tend to have a strong shared identity based on co-operative principles (though they do not always constitute a unified 'co-operative movement'). *Mutuals* do not have such a strong social identity; their history is much more mixed and less obviously heroic, and they have definitely never been part of one unified movement. However, some types of mutual do have a distinguished history and a social movement ethos. British friendly societies were such a movement until sidelined by the state in social insurance after the Second World War. In France the term 'mutuality' carries a much stronger meaning than elsewhere, and is more like that of a co-operative. There are important differences between a co-operative and a mutual. The term mutual is usually applied to financial MOBs; their purpose is to raise funds from their customers in order to provide them with services such as savings and loans, various types of assurance, health insurance, pensions, housing mortgages and so on. They do this through recycling money within a closed system that does not include – or need – outside investors. A mutual can have different stakeholders taking part in governance. Building society customers can be savers or borrowers, or both, while pension customers can be on a with-profits or a fixed interest basis. Their rights in the business have to be allocated carefully, but otherwise governance is similar to that of a co-operative. Mutuals insist that customers become members, while co-operatives often also have dealings with customers who are not members. Finally, the other term, *economic association*, is the broadest, carrying no ideological 'baggage' or set of universal rules by which it is distinguished from other types. It is usually applied to farmer associations, and is useful in distinguishing MOBs that do not conform to co-operative principles.

Sometimes other business types use the term 'mutual' in a misleading way. Some demutualised businesses still carry the word 'mutual' in their name even though they are investor-owned and have no right to! Savings banks often see their customers as 'members' but do not allow them a share in governance; they are governed by a self-perpetuating board of trustees and so are much more like charities. In the US they are called mutual savings banks, but they are only mutual in one sense, that there is no separate set of investors to take the profits.[20]

What follows from this approach?

Seen from this perspective, co-operatives are businesses that have a particular identity derived from a sense of history and commitment to a particular set of principles, but *they are not all that different from other member-owned businesses*. What follows? First, we can make use of a broad definition of member-owned businesses, reaching out to other MOBs regardless of cultural origin or commitment to common values. Co-operative promoters can see themselves as part of a larger sector defined by its difference from, and comparative advantages over, IOBs (investor-owned businesses). To some extent this is beginning to happen in the UK with the links being built between Co-operatives UK and the Building Societies Association. The International Co-operative and Mutual Insurance Federation (ICMIF) has taken this approach one stage further, including in membership both co-operatives and mutuals.

Second, we can provide a narrower definition, in which co-operative promoters can see themselves as a distinct type of MOB that carries with it a particular tradition and a common set of values and principles (of which the ICA is the custodian). When we unpack the idea of member-ownership we find that it implies the first four ICA principles, whether or not particular organisations choose to sign up to them. We can make value judgements about whether a MOB is really living up to its internal logic of member ownership, control and benefit, and its external logic of being an autonomous and independent business. The International Co-operative and Mutual Insurance Federation already makes these kinds of judgements in its membership policy. A case could be made for a kite marking system based on the logic of member-ownership, and the ICA and its sectoral bodies, along with national co-operative federations, might develop such a system.

What we cannot do from the MOB approach is to derive from it values concerning community, fair trade or the environment; values derived from membership cannot be used to give value to non-members. However, we can easily extend the logic if we see non-members as *potential* members; people or businesses with similar needs have a moral claim on the MOB to open up membership further. There are two good arguments for extending membership to new members. First, in most types of business extension is good for existing members as it lowers costs and so increases rewards, and it also spreads risk. Second, it meets wider demands for equality of opportunity and so demonstrates the value of the business to civil society and to government. This can have benefits in the promotion of a sympathetic business environment around the MOB.

A good test of the usefulness of the MOB approach is whether it helps to resolve some contentious issues that would otherwise remain unclear and controversial. Here are three issues that it does help to resolve. First, there is the issue of partial member-ownership. Some co-operatives begin as 100 per cent member owned, and then diversify, offering shares to investor-owners. This applies mainly to farmer co-ops, but also to others needing large investments, such as telecoms and insurance co-ops. Sometimes the co-operative remains separate as a holding company, while operating through a plc. Here, while member ownership is obscured it still exists in a pure form behind the business. Sometimes investors are brought into direct ownership, and here the business can still be seen as member-owned if members retain at least 51 per cent of the equity. However, there are doubts as to whether in practice members can exert enough influence to be said to be still in control, and so a better but more subjective definition would be that members retain control. The same argument can be used to clarify the status of employee share ownership schemes. If employees own more than 50 per cent of the shares then the business can be said to be employee-owned and hence a co-operative.

Some co-operatives begin as a member-owned association whose purpose is to buy into an existing business so as to exert control by a particular group of stakeholders. Wind farm co-operatives in Scotland are one example, as is the football trusts that are buying shares in British football clubs. We might call them consumer investment co-operatives. Another form is the employee share-ownership trust that is buying into a business on behalf of employees; we might call this an employee investment co-operative. This helps us to clarify the status of ‘investment mutuals’ that are common in the US and becoming more popular in Britain. Here, groups of people get together to invest money collectively and share the resulting profits. Because co-operatives are traditionally set up to reward use of the business rather than capital investment – members rather than investors – it might seem that this cannot be a co-operative. It is certainly not a form that co-operative federations may wish actively to promote, but it is a business organisation designed to meet the needs of its members, and so it is a MOB and probably could be seen as a type of co-operative.

Second, there is the question of whether rewards to members as investors infringe co-operative principles. There is a 'new generation' of farmer co-ops that have been radically redesigned, and some critics think they infringe co-operative principles. It is true that they reward capital: they operate with a closed membership and members can sell membership rights at a market value to other farmers, and some of them weight voting rights by capital investment. However, the capital investment that each farmer makes is linked directly to usage rights. Capital and use are aligned, and so it could be argued that rewards to capital are the same as rewards to usage. There are other large farmer-owned co-operatives that have begun to give shares to farmers on the basis of usage, but that carry increased voting rights and attract a dividend. This is a serious move from member-ownership towards investor-ownership. Such moves are becoming more common as large, transnational co-operatives begin to seek to raise more capital from their farmer-members. In fact, at the international level there is a need for some kind of commission to look into the question of ownership and control rights at the 'cutting edge' of co-operative development. The test of any innovation must be whether it can still be said that the business is substantially member-owned and controlled, and is run mainly for the benefit of members.

Third, the MOB approach says nothing about the idea of community ownership. It theorises three categories of member: consumers, producers and employees. It assumes that individual people or businesses become members in order to meet specific needs, and does not have anything to say about communal ownership. It has no problem in linking membership to a particular geographical area; co-operatives often do this as part of their business strategy (or as in Japanese consumer co-ops, because they are constrained by law from operating in more than one area). In this sense the term 'community co-operative' is perfectly acceptable; it is a consumer or multi-stakeholder co-operative based in one locality. However, if people become members automatically by virtue of being part of a geographical community, then a specific stakeholder interest is replaced by a more amorphous interest and the community organisation cannot really be called a co-operative. In a co-operative people have to sign up voluntarily to become members, and some members of a community will choose not to be members of the co-operative. If one wants all people in a community automatically to benefit from a service regardless of membership, then it is better to set up a community business with a trustee structure. This has been illustrated in the history of health co-operatives; nearly everywhere that these have been introduced as a general provider of rural health care (for example, Serbia, India, rural US and Canada) they have not known how to exclude non-members. Gradually they have evolved into conventional community health centres funded mainly by government and allowing all residents the same access to health care.[21]

Where does the MOB approach place the co-operative sector?

For those who are interested in the social aspects of co-operatives, the MOB approach may seem clinical and economistic, but there are good reasons why it should be preferred. It works at a level of thinking which is prior to the distinction between social and economic. It assumes the primary purpose of the MOB is to meet the needs of members, however the members define these. The needs can be any mix of the economic and social that the members require at any point in time. In contrast, the 'social approach' to co-operatives leads to their identification with social enterprises, helped by an erroneous view that co-operatives are (or ought to be) non-profit making. Most co-operatives do make profits, and the difference between them and capitalist enterprises is that they distribute the profits on the basis of use of, rather than investment in, the business. They may choose, as a matter of policy, to distribute the profits in the form of lower prices (typically the policy of utility co-ops), but this does not make them non-profit. On the other hand, if co-operatives do choose to have a non-profit distributing policy there is nothing wrong in their being labelled social enterprises.

How, then, should we view community co-operatives? If all members of a community are automatically considered members of the co-operative, then it fails the test of having a voluntary membership consisting of individuals who benefit from the business. If members of a community are offered the chance to buy a membership share and to invest in the business through non-voting preference shares, *and* they then get to choose how to distribute the profits, then it is a co-operative. We can see this clearly in the International Labour Organisation's INDISCO project, where indigenous peoples decided either to set up a community business or a co-operative – the two forms were quite distinct.[22] In the UK, the difference between community-owned wind farms and co-operatives that enable local people to invest in windfarms is also distinct. Co-operative members may, of course, choose to distribute the profits in a way that benefits the whole community, but the important point of principle is that it is *their* decision as members.[23]

The implications of this approach for co-operative federations

The MOB approach implies that those who are custodians of the co-operative tradition should adopt a member-ownership framework for the understanding of what is a co-operative. This does not necessarily mean adopting all the terminology presented in Table 5. For example, the International Labour Organisation's term 'shared service co-op' is what Co-operatives UK calls a 'consortium co-op', and either term will do provided it is used consistently and widely understood. The important point is that the definition should be based on a distinct set of ownership types rather than just on the co-operative principles. If a consistent set of definitions were agreed internationally, then a project could get underway to improve co-operative statistics worldwide.

This approach also implies that co-operative federations should extend a welcome to other MOB sectors that are not called co-operatives. It shows that the different sectors are all related genetically via the idea of member ownership. This is happening in the UK, where Co-operatives UK, the Building Societies Association and the Association of Mutual Insurers are building closer links. In the not too distant future, it should be possible for such organisations to develop a kite mark for MOBs; it should not be too difficult to measure to what extent the key principles of autonomy, member ownership, control and benefit are demonstrated by a particular business.

The MOB approach could be a spur to promotion of member-ownership where it is not yet established. The classificatory system suggested in Table 5 could be used to add up the total contribution of co-operatives, mutuals and similar organisations in each market sector. Market share is a crucial variable that is often not available. When it is (for instance from the European co-operative banks), an argument can be constructed for the importance of MOBs in ensuring a fair and balanced market. In sectors where MOBs are not present in enough numbers to affect the way the market operates, a strong argument could then be made for their promotion.

The MOB approach should also enable co-operative federations to unify their work on member relations and governance with their business strategies. The old idea that a co-operative consists of two organisations – an association of persons and a business enterprise – lingers on in some sectors. Membership is still seen as an aspect of public relations, or as a minimum requirement for good governance, rather than as a fundamental starting point for understanding co-operatives.

Conclusion

This essay has outlined a new approach to the question of how to define a co-operative, suggesting that an understanding of co-operatives as 'member-owned businesses' has distinct advantages over the traditional approach of checking candidates against seven co-operative principles. It has not suggested that the traditional approach be superseded, but that we should focus on the first four principles that are part of the core identity of co-operatives and that are compatible with competing sets of principles endorsed by some worker and producer co-ops. These four principles should be understood within the logical structure of member-ownership and all that it implies. There are several advantages to this approach, but perhaps the most important is that it provides a clear classification system for co-operatives and similar businesses worldwide. This might be the starting point for a project on co-operative statistics that is urgently needed if the current impact and future potential of MOBs are fully to be appreciated.

Endnotes

1 J. Birchall, *People-centred Businesses: Co-operatives, Mutuals and the Idea of Membership* (London, 2010).

2 International Co-operative Alliance (ICA), *Global300 Report* (Geneva, 2010).

3 J. Birchall and L. Hammond-Ketilson, *Resilience of the Co-operative Business Model in Times of Crisis* (Geneva, 2009).

4 J. Birchall, *Co-operatives and the Millennium Development Goals* (Geneva, 2004).

5 P. Develtere, I. Pollet and F. Wanyama (eds), *Cooperating Out of Poverty: the renaissance of the African co-operative movement* (Geneva, 2008); F. Wanyama, P. Develtere, and I. Pollet, 'Reinventing the wheel? African cooperatives in a liberalised economic environment', *Annals of Public and Co-operative Economics*, 80 (2009), 361–92.

6 J. Birchall and R. Simmons, 'The Co-operative Reform Process in Tanzania and Sri Lanka', *Annals of Public and Co-operative Economics*, 81 (2010), 467–500.

7 International Co-operative Alliance (ICA), *Annual Report* 1995-6 (Geneva, 1996). The ICA also endorsed a set of values, but since these do not directly relate to the question of how to define a co-operative they will not be discussed here.

8 United Nations Economic and Social Council, *Co-operatives in social development* (New York, 2001).

9 International Labour Organisation (ILO), *Recommendation 193 Concerning the Promotion of Co-operatives* (Geneva, 2001).

10 H. Henry, 'The Creation of a Supportive Environment in Theory and Practice: Co-operative Law', Paper for Expert Group meeting, *UN Division for Social Policy and Development* (Ulaanbaatar, 2002).

11 J. Birchall, *Co-op: the People's Business* (Manchester, 1994), ch 4.

12 Birchall, *Co-op*, p. 54.

13 J. Birchall, *The International Cooperative Movement* (Manchester, 1997), ch 2.

14 Birchall and Simmons, 'The Co-operative Reform Process in Tanzania and Sri Lanka'.

15 Birchall, *The International Cooperative Movement*, p. 22.

16 Mondragon Corporation, *Basic Principles* (Mondragon, 2010), http://www.mondragon-corporation.com, accessed 27 September 2010.

17 J. Birchall, *Documento de Fondo: Los Principios Cooperativos, diez anos despues* (Geneva, 2005).

18 T. Shah, *Catalysing Co-operation: design of self-governing organisations* (New Delhi, 1996).

19 Birchall, *People-centred Businesses*.

20 Birchall, *People-centred Businesses*, ch 7.

21 Birchall, *People-centred Businesses*, ch 6.

22 J. Birchall, *Rediscovering the Co-operative Advantage: Poverty Reduction Through Self-help* (Geneva, 2003).

23 J. Birchall, *A Comparative Study of Co-operatives in Scotland, Finland, Sweden and Switzerland* (Glasgow, 2009).

Hybrid tendencies in consumer co-operatives: the case of Sweden

Victor Pestoff

7. Hybrid tendencies in consumer co-operatives: the case of Sweden

Victor Pestoff

Co-operatives are hybrid organisations that pursue multiple goals rather than having a single purpose. In fact, their very *raison d'être* is to pursue both economic and social goals. Co-operatives in the past and still today play a significant role in Scandinavian societies. As hybrid organisations with multiple goals they attract the attention of academics researching within various disciplines. However, given differences between disciplines economists ask different questions than political scientists, even when studying similar subject matter, like associations and co-operatives. Thus, the political science interest in co-operatives is not so much a question of why they exist, but rather what and how they can contribute to society. Moreover, we want to know if and how they can facilitate the functioning of democracy. This essay considers co-operatives and democracy in Scandinavia, taking the Swedish case as an illustration.

The founder of the Grameen Bank warns against putting too much faith in hybrids that combine an interest in producing social value with the goals of enterprises in the mainstream market economy. 'In the real world, it will be very difficult to operate businesses with the two conflicting goals of profit maximization and social benefits. The executives of these hybrid businesses will gradually inch toward the profit-maximization goal, no matter how the company's mission is designed.'[1] However, the unique capacity to combine social and economic goals is seen as a strong advantage by many observers. If co-ops can combine sound economic practices, democratic control by members, the promotion of their members' interest and good employment conditions, that can provide a clear alternative to competing firms on the market. The basic dilemma facing the Swedish co-operative movements and most hybrid organisations is how best to combine their social goals with the demands of the market. The social dimension of co-operatives clearly helps to set them apart and make them different from their competitors. The active promotion of social values can provide them with a clear profile, help to distinguish them from their competitors and give them a competitive advantage, if properly understood and promoted. By contrast, the failure to promote their social values would deny the co-ops their natural profile, make it harder for their members and ordinary consumers to distinguish between them and their competitors and thereby deny them a natural competitive advantage.

This essay deals with the importance of major social change for organisational development, the importance of organisational growth and size for internal democracy, the importance of social goals for co-operative identity and the need to develop methods to counteract the instability often found in hybrid organisations like co-operatives. A dynamic model for co-operative development is presented to introduce the major stakeholders in this type of hybrid organisation. This model is based on four separate and often opposing logics. Maintaining stability in organisations that have several rather than a single logic and several rather than one dominant stakeholder can be problematic. Often a single logic will dominate, but if this happens for too long it can change the very nature of an organisation or co-op. Dominance of the logic of competition resulted in weakening the logics of membership, influence and personnel management, as the history of the Swedish consumer co-operative movement shows. Then, at the beginning of the new millennium a major amalgamation resulted in Co-op Norden that combined the activities of consumer co-ops in Denmark, Norway and Sweden into a new Scandinavian consumer co-operative movement. However, it removed the last vestiges of democracy in internal decision-making in the Swedish consumer co-ops and made membership trivial. Finally, a road-map for reintroducing democracy into the co-operative movements is proposed. It includes a discussion of co-production and multi-stakeholding in order to create greater trust in the provision of co-op social services. Together with social accounting, these concepts can help to provide a counter-weight to major destabilizing factors found in hybrid organisations like co-ops and they can help to make membership meaningful again. Some conclusions are reached about stabilizing hybrid organisations in the final section.

Major social change in the twentieth century

Sweden, Swedish society and the Swedish consumer co-operative movement are light years from the conditions that prevailed when the Swedish Co-operative Union and Wholesale Society (*Kooperativa forbundet, KF*) was founded in 1890. Industrialisation and urbanisation are often seen as the prime drivers of early societal change. In brief, the transition from a rural, agrarian society to post-industrial cosmopolitan society has been dramatic in recent generations in Scandinavia. Today's post-modern Western society is composed mostly of urban and suburban dwellers, many of whom live in multiple storey and multiple family housing. Many are highly educated, hold jobs in highly advanced industries or services, and they are also highly interdependent economically, socially and in other ways. They may travel greater distances by car or mass transportation to and from work every day, than their ancestors normally did in a year or more. They take for granted things like hot and cold running water, showers, toilets, and some even a Jacuzzi, rather than having to dig their own wells or pump their own water. They also have electricity, a refrigerator and freezer, a stove, radio, TV, microwave, dishwashers, and washing machines. Given the informatics revolution, they come home to read their personal e-mail or chat on the internet, and perhaps watch a DVD or download music or a film from the internet, rather than 'spin yarns' or exchange local 'news' during their visit to town or to their church, as their ancestors did only a few generations ago.

Some of the major social changes to impact upon Sweden, Swedish society and its consumer co-operatives during the past 120 years include the following. Alongside industrialisation and urbanisation, Sweden saw the rapid growth of unions and other forms of collective action; continual growth in the standard of living for most citizens; the development of the welfare state and public bureaucracy to provide public services, particularly the social services, that many citizens have become highly dependent on today. In terms of political change we note the introduction of universal suffrage and parliamentarism, the Soviet Revolution and growth of Nazism in Germany, neutrality during World War II and the Cold War, the fall of the Soviet Union and communism in their proximity, the growth of new economic, political and social structures at the European level through European integration and membership in the European Union; the growth of 'organised society' with big organisations on both sides of the public/private divide;[2] the deregulation of the Swedish economy, in part to qualify for EU membership; the de-corporatization of political institutions; and finally the easing of restrictions on public financing of alternatively provided social services and privatization of many public services in recent years. Clearly, the Swedish consumer co-operatives must adapt and adjust to such broad sweeping social and political changes in order to survive. The question is how they adapted to them and at what cost to their co-operative values?

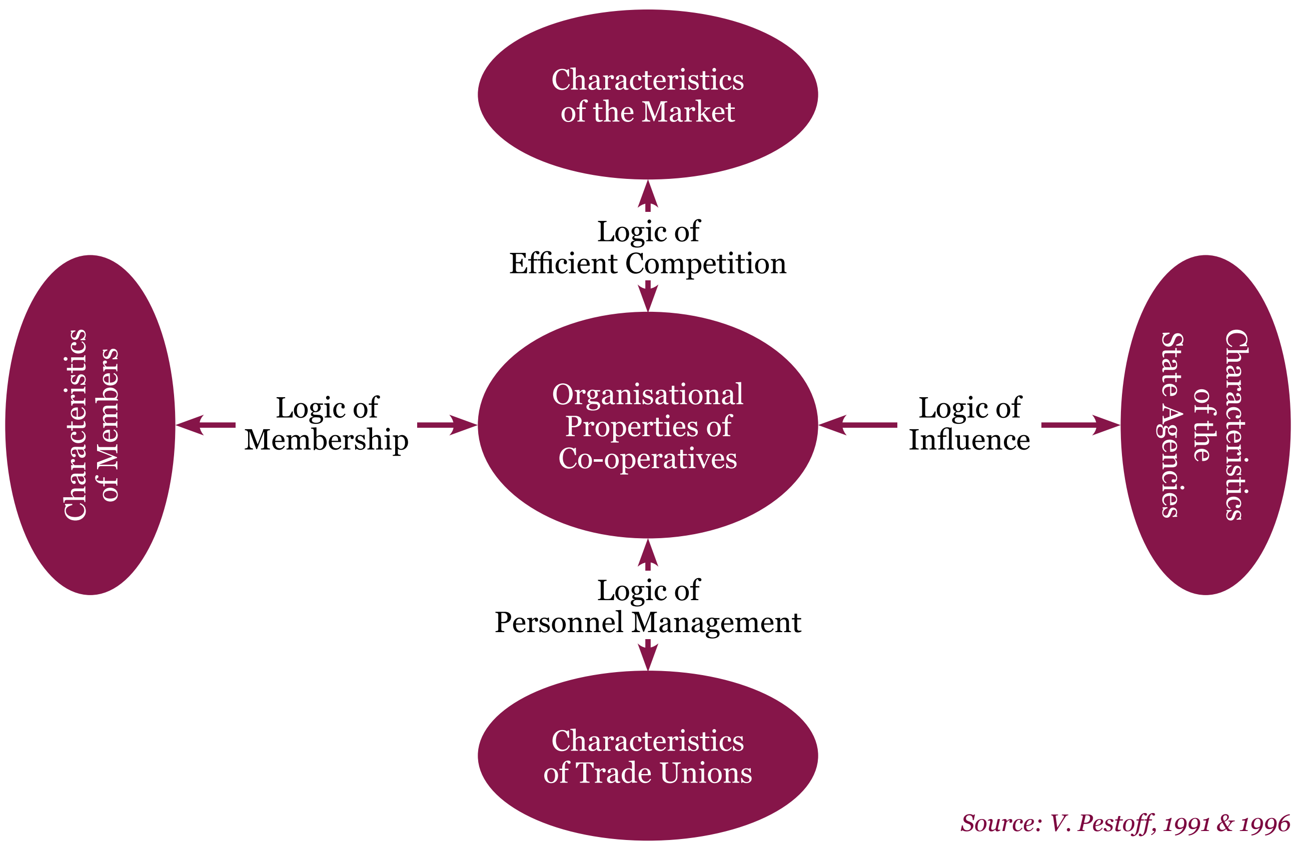
A dynamic model of co-operative development

This section presents an interactive model of co-operative developments, after which I discuss some of the major changes in the Swedish consumer co-operative movement in the twentieth century. This interactive model underlines the importance for co-operatives to adapt and adjust to major changes in their environment. It also points to the need for co-operatives as hybrid organisations to balance the claims of various stakeholders or strategic groups, so that no single group dominates it permanently. If management continues to ignore the demands of some important stakeholders and pursues only one goal, like maintaining its market shares or increasing its efficiency, then it risks changing the co-op into another type of organisation and losing the support of some of its original stakeholders. This is seen clearly in the Swedish consumer co-ops, but is also evident in the agricultural co-ops in Sweden as well. We need, therefore, to consider each environment or dimension in this interactive model more closely.

The four most important environments for co-operatives as hybrid organisations in industrial and post-industrial societies are: the market, their members, their employees and the authorities. Together they set clear limits on the actions and decisions of co-operatives and their managers. Each of them acts as a powerful constraint on the freedom of co-operative leaders and their decisions. Each of them promotes their own particular values and represents their own particular goals, which at times may come in conflict. Each of them is based on a separate logic, making it possible to speak of four competing logics or principles of co-operatives: the logic of (efficient) competition, the logic of (democratic) membership, the logic of (political) influence and the logic of (personnel) management. These are depicted in Figure 3 below.

Both members and employees comprise the internal environment of co-operatives, as they are part of the organisation; while markets and authorities comprise the external environment of co-operatives, since they are outside the organisation itself. At the same time, co-operatives can also be analyzed in terms of their commercial and social/political dimensions. Here markets and employees comprise the commercial dimension, while members and authorities comprise the social/political dimension of co-operatives. The commercial dimension is something co-operatives share with other firms in the market while also competing with them. The social/political dimension of co-operatives is something they hold in common with other popular movements, non-governmental organisations, voluntary associations and third sector organisations.

Figure 3 – The competing 'logics' of Co-operative Associative Action



Source: V. Pestoff, 1991 & 1996

The logic of competition or amalgamations and concentration?

Sweden experienced a dramatic reorganisation of its local democratic institutions in the 1950s and again in the 1970s that reduced the number of municipalities from approximately 2,500 in 1950 to 290 in 1980. This was done with the aim of creating the demographic and financial base necessary for expanding the welfare state, but it came at the price of local democracy. Moreover, it seems that certain popular movements, in particular the consumer co-operative movement, followed suit and adopted the logic that 'big is beautiful' in their own organisation. The 1960s and 1970s saw the consumer co-operative movement, or Konsum, promoting much larger local units, with more professional employees and fewer elected offices.[3]

Today Sweden is a very different society compared with a century ago when the Swedish consumer co-ops started providing goods for their members. In 1899, when the Swedish Co-operative Union & Wholesale Society (*Kooperativa Förbundet*, KF) was established, the consumer co-operative movement had a clear social profile. This profile included cash-only sales, unadulterated products, breaking up production and/or sales monopolies, and democratic decision-making structures, almost two decades before Sweden adopted universal suffrage. The table below provides a brief overview of the development of the consumer co-op movement from 1910 to 2010, in terms of the number of members, local societies, employees and shops.

Table 6 – Development of Swedish Consumer Co-operatives, 1910–2010

Year	Membs in 1000s	No. of co-op societies	Membs per local co-op	Total no. employees	No. of sales outlets	Membs per sales outlet
1910	74	391	188	na	448	165
1920	236	941	250	na	1,592	148
1930	450	837	539	13,700	3,302	136
1940	700	687	1,019	29,300	5,301	132
1950	926	681	1,413	50,200	8,017	116
1960	1,172	592	1,988	57,900	6,651	139
1965	1,323	338	3,913	58,100	3,901	339
1970	1,605	232	6,920	65,500	2,786	576
1975	1,801	188	9,580	68,000	2,358	764
1980	1,882	152	12,380	71,751	2,068	910
1985	1,971	142	13,879	61,032	1,897	1,039
1990	2,100	120	17,500	33,760	1,687	1,245
1995*	2,213	93	23,796	31,233	1,399	1,582
2000*	2,563	75	34,173	26,996	784	3,269
2005*	3,000	58	51,731	na	na	–
2010*	3,145	44	71,476	14,638	866	3,632

Source: V. Pestoff, 2008; na=not available;

**After 1991 'members' in Co-op Sweden, who represent more than 60% of all members, have the same trivial rights and responsibilities as 'members' of American Express or the IKEA 'family'. These rights and responsibilities are purely commercial, not democratic. They can apply for bonus cards to register their purchases and get occasional bonuses, based on their purchases. Most retail firms provide similar benefits for their customers today.*

At the beginning of the twentieth century the Swedish consumer co-operative movement was mainly comprised of numerous semi-independent local co-operative societies. In 1910 there were nearly 75,000 individual members organised into nearly four hundred local consumer co-operative societies, for an average size of less than two hundred members. Just ten years later these figures had increased dramatically: the number of members approached 250,000, the number of local societies was nearly 1,000, but the average size of the local societies was still only 250. By 1950 there were nearly 1 million members in nearly 700 local societies, with an average size of nearly 1,500 members. Forty years later, in 1990, membership reached over 2.1 million, but the number of local societies decreased to only 120, with an average of 17,500 members per society. Then in the year 2000, the number of 'members' increased to over 2.5 million, while the number of local societies decreased to only 75, resulting in an average size of over 34,000 'members' per local/regional society. Two major amalgamations, discussed below, only helped to accentuate this development. Ten years later, there were nearly two million 'members' in the five regional members of Co-op Sweden together, while more than one million remained in the thirty-nine remaining local Konsum societies.[4] Thus, in the past one hundred years the number of members has increased by several hundred percent, while the number of local co-operative societies was reduced to only a fraction. As a consequence, the average size of local co-operative societies increased from about two hundred members in 1910 to more than 70,000 in 2010. In the process, the semi-independent small local co-operative societies, which were the backbone of the movement in the late nineteenth and early twentieth centuries, were relegated to a marginal position compared with the mega-societies formed in major urban areas through a process of amalgamations starting in the 1960s.[5]

Not only has the average size of the local and regional co-op societies increased dramatically in recent decades. The gap between big and small societies is huge today, ranging from 608,751 in the largest to only 179 members in the smallest. Only in the dozen smallest societies do the conditions necessary for active membership appear to exist. By contrast, in the larger regional co-op societies these conditions either do not prevail or 'members' have been stripped of their voting rights and the co-op society is run as a limited company, without any bothersome member 'voice' or influence, except for 'exit'.

The logic of membership or disappearing democratic structures?

Comparing amalgamations in the consumer co-operatives (Konsum & KF) with that found in the building and tenant co-operatives (HSB) provides some interesting contrasts, in particular on the impact of amalgamations on democratic structures. Both organisations grew steadily in membership during the first seven or eight decades of the twentieth century: HSB grew from 10,303 members in 1930 to 595,426 in 1988; while Konsum & KF grew from 74,000 members in 1910 to 2.1 million in 1990.

Amalgamations had a different impact on these consumer co-operative movements. In the building and tenant co-operatives (HSB) they primarily affected the municipal or regional level, but not the individual small local building and tenant co-ops, where most of its members live and managed their own apartments. In the Swedish consumer co-ops amalgamations mostly impacted the lowest level, where rank-and-file members have most of their regular contacts and where they can first hope to gain an elected office or honorary post if they want to become engaged and involved.

However, local building and tenant co-operatives register their stock of apartment buildings as separate legal entities, which cannot be amalgamated, thus amalgamations in HSB at the municipal or regional level somewhat unintentionally preserved the local democratic structures. In the consumer co-operatives (Konsum & KF) the number of local co-ops began to decrease early in the organisation's history, as they moved from democratically controlled shop co-operatives to town or city-wide co-ops, and later regional consumer co-operative societies. This resulted in a steady decrease in the number of democratic structures where members could have influence, become active and hope to gain an elective or honorary office.

During the period of radical reorganisation and growth in the average size of local governments in Sweden, the consumer co-ops grew dramatically. Between 1950 and the end of the 1970s the size of the co-ops' democratic units grew, going from fifty-four to eighty-six members in HSB and from 1,413 to 11,092 members in Konsum & KF. By the year 2007 the average number of members reached 138 for HSB and over 60,000 for Konsum. This implies that a member's chance of gaining an elective office or honorary post in either of these popular movements decreased in relation to the growth in size of the local organisation. Thus, by the end of this period, chances for members to gain an elective office were much greater in building and tenant co-ops than in the consumer co-operatives. As a member's chance to gain an elective office or honorary post in a co-operative movement decreased, many co-operatives clearly lost their ability to perform their often noted function as schools of democratic values and virtues.

In addition, there was also a rapid growth in the number of employees that reflects a change in the balance of power between the two groups of leaders, elected and hired. This can be expressed in terms of a ratio of elected to paid leaders, or an index of democratic control. Organisational size and democracy remain a crucial issue in political science.[6] It may be difficult or impossible to derive an optimum size for co-operatives with varied conditions. However, it should be clear that when a co-op grows from an average size of 250 members per local unit to over 70,000 members per local co-op during 100 years (1910–2010), it becomes a very different organisation from when it started. By contrast, the development of the Swedish building and tenant co-ops, HSB, shows that it is possible to grow without sacrificing membership democracy at the local level. The average size of the local building and tenant co-ops grew from fifty-four in 1950 to 138 in 2007 and this seems closer to the optimum than the size of the consumer co-ops or Konsum. One lesson that can be learned from comparing the established co-operative movements in Sweden is that in order to sustain local democratic structures they should adopt a federative rather than a unitary organisational model, one that protects small local units at any cost, since the latter appears to be the life blood of local democracy and active membership.

The logic of influence or co-operatives and policy-making?

Swedish consumer co-operatives played an instrumental role in the development of Swedish consumer policy in the post-war period. Until Sweden joined the EU, it pursued an active consumer policy, in line with its better known active labour market policy. The government played a central role in regulating many issues that were left to the market in more liberal countries. In doing so, Sweden attempted to develop a countervailing power to its well organised business interests of industry and the wholesale and retail sectors.[7] Thus, the consumer co-operatives were important in developing this active consumer policy; they often set the business standards that later became codified into consumer laws and regulations.

However, by pursuing the logic of influence, the logic of membership became crowded out once again. In a competitive market the higher standards set by the co-operatives were once seen as a competitive advantage that attracted many families. However, once codified into law, they became very reluctant to provide anything more for their customers and members than their competitors. So, this one-time floor for the consumer co-operatives soon became a ceiling for all commerce, including the consumer co-operatives. Over time consumers became aware of the loss of the co-operative role as a standard bearer for consumers, which led to the loss of their competitive advantage. The local consumer co-operative gradually became just another shop in the eyes of many customers and members. Thus, the consumer co-ops lost one of their main competitive advantages on the market, their unique possibility to promote the political and social interest of their members as consumers.

The logic of personnel management

For reasons of space, the fourth and final logic of co-operative associative action, the logic of personnel management, will not be considered closely in this essay. Nevertheless, we can note that the logic of personnel management suffered from a similar atrophy as the logic of membership and the logic of influence. What was once a floor became a ceiling over time and the logic of competition was allowed to dominate once again. Lofty standards of being a model employer lost ground and were eventually sacrificed in the name of competition. Differences in wages and working conditions were viewed solely in terms of costs that needed to be kept to a minimum, not as means for retaining an engaged staff. This resulted in the consumer co-operatives reverting to the national labour court to prevent higher standards from being applied to them than their private competitors.

Two major amalgamations eliminate the last vestiges of democracy

Two major amalgamations at the end of the twentieth century illustrated just how far the Swedish consumer co-operative movement had gone in allowing a single logic or goal to dominate its activities. The first took place in 1991 and resulted in completely new institutional structures, ones that ruptured ties with their members and replaced formal democratic structures with ordinary commercial relations for the majority of them. The new organisation, called Co-op Sweden, was a complicated conglomerate that owned five of the biggest regional societies, and they in turn owned the central organisation, KF.[8] These five regional societies function as 'integrated consumer societies', while the remaining 115 local Konsum societies continued as semi-independent members of KF and retained their democratic structures. This resulted in very complex decision-making structures that few knowledgeable and well-informed persons can truly understand. Moreover, Co-op Sweden and its five regional members also changed their legal status from economic associations to limited companies, thereby formalizing the elimination of member influence. Then, in 2001 the FBD, NKL and KF, wholesale societies of the Danish, Norwegian and Swedish consumer co-operative movements, decided to create *Co-op Norden*, in order to protect their market shares in the respective Nordic countries against foreign competitors.[9]

The nature of the membership in the Swedish consumer co-operative movement has changed dramatically, from active to passive membership. In the 1960s the Swedish consumer co-ops still required that members save all their sales slips and report their grocery and household purchases at the end of the year in order to get the annual dividend that depended on the amount they spent. By contrast, today such mundane tasks are replaced by a plastic card that electronically records all sales and provides bonus points on their purchases similar to those provided by most other commercial chains. Thus, today 'membership' in a consumer co-op means as much or as little as ‘membership’ in American Express, the IKEA Family or the H&M Club. There are no longer any democratic rights and responsibilities associated with membership in the bigger regional consumer co-ops. Thus, the Swedish consumer co-operative movement, Konsum & KF has been transformed into huge commercial conglomerates, operating successfully in several countries, but far removed from their origin as popular movements that promoted social values, and that were democratically run.

One final illustration of the total domination of commercial values in the Swedish consumer co-operative movement to the detriment of its earlier social values is found in Konsum & KF's advanced tax planning. Co-op Norden sold 130 commercial buildings in Sweden in 2005 to pay back bank loans and to open new mega shops and department stores in Sweden. The buyer was the huge Dutch property management company, ING. According to Erik Skånsberg, the financial director of Co-op Norden, KF received 4.2 billion crowns for its share of the 130 commercial buildings sold in 2005. However, the Swedish tax authorities (*Skatteverket*) rejected the manner in which this transaction took place. Skatteverket considered it merely another example of advanced tax planning to avoid paying taxes in Sweden. Therefore, KF found its taxes retroactively increased by 1.8 billion crowns for 2005. KF appealed this decision to the county courts (*Länsrätten*), but it lost the case in August, 2010. The court reasoned that KF, together with its daughter company in Holland, created several joint companies (*kommanditbolag*) in Holland that bought the 130 commercial buildings from Co-op Norden. These joint companies were then sold to ING. But, the profit from selling these joint companies and their commercial holdings in Sweden went to KF’s Dutch subsidiary to the extent of 99.9 per cent, rather than to KF in Sweden and this profit was not subject to taxation in Holland. However, the Swedish tax authorities argued that the profit should have been taxed in Sweden since it was the Swedish firm that contributed the 130 commercial buildings and therefore created their commercial value. At the same time, a separate legal conflict with the Swedish *Skatteverket* concerns KF’s sale of buildings in Kvarnholmen, just outside Stockholm, where the expected tax increase for KF will add another 600 million crowns, for a total of 2.4 billion crowns in increased tax value for these two sales of properties.[10] Both these cases brought by the Swedish tax authorities against KF for trying to avoid taxes for Swedish properties sold abroad through advanced tax planning clearly illustrate the degree to which the logic of the market rather than the logic of membership or any social values dominate the thinking of KF’s directors. They have clearly moved very far from a firm or co-op that takes both its social and economic goals seriously and tries to combine or balance them.

The International Co-operative Alliance’s definition of a co-operative emphasises the hybrid nature of organisations that pursue multiple goals rather than having a single purpose. Most co-operatives combine several different types of goals, economic, political and social. In fact, the very *raison d’etre* for co-ops is to pursue multiple goals. A co-op’s economic goal is clearly seen and measured by the balance sheet, turn-over figures, number of employees, number of shops, and so on. But its political and social goals are more difficult to measure. Social accounting provides a method that helps put an organisation’s social goals in focus.[11] Its social goals should be found in its statutes, but they may need revising with time and changing circumstances. Many organisations outlive their original social goals and purpose, but they may find a new goal and purpose. Many organisations, especially those that survive for several decades, may need to revisit their statutes from time to time, in order to ensure their relevance and to relate them to changing circumstances and major societal changes. Similarly, without clear social goals and democratic structures for internal decision-making, co-ops cease to be co-operatives with any demonstrable differences that distinguish them from their private competitors.

In particular, a successful consumer co-op that continues to grow and expand its activities during several decades needs to examine the relevance of its social goals. It needs to ask, from time to time, how relevant its activities are for the well-being of its members. Do its goals and activities comprise an important part of their daily life? Are similar goods and services perhaps available on the local market at competitive prices? If such goods and services are provided by several competitors, what is the social value added by the co-ops? If there is little or no social value added, then such co-ops need to ask whether they should continue to provide such goods and services, or perhaps instead invest in providing some other goods or services that have a greater relevance for their members and the local community. Similarly, without clear democratic structures co-operatives do not differ significantly from their competitors, and there is little reason to treat them as special organisational forms that somehow differ from their private competitors, nor to expect them to behave differently.

Quite simply, without clear social goals and democratic structures for internal decision-making, co-ops cease to be different or retain their co-operative identity, except in name only. They cease to be co-operatives with any demonstrable differences that distinguish them from their private competitors. However, such co-ops may nevertheless differ from their competitors in one important respect. They represent the collective accumulation of their members' financial sacrifices and capital during many decades. They represent their parents' and their own collective capital, primarily in the form of buildings, production facilities and various funds that should perhaps be sold or liquidated and reinvested to provide more highly relevant goods and services to meet their current needs. Such goods and services should be provided in a co-operative fashion, with clear social goals and through democratic structures. The ICA notes that the capital in a co-op is the common property of the members and it should be allocated to activities approved by its membership. However, the 2005 sale of 130 commercial buildings by KF or Co-op Sweden does not appear to have been discussed by the members of these five big regional co-op societies.

Co-production and economic democracy: a roadmap for the future?

I maintain that democracy and the market could and should be more closely related, through intelligent organisational design. Here co-production and a multi-stakeholder model can provide important concepts, models and institutions for understanding, developing and promoting democracy at the micro-level in the daily lives of ordinary citizens, both as consumers and workers. Co-operatives could make a unique contribution to renewing social services, enriching the work-life and to rejuvenating democracy. Co-operatives could provide a good example and set the best practices, both in services and manufacturing.

This section makes some proposals for addressing the disappearance of local democratic structures and the loss of relevance of co-operative solutions in Scandinavian societies today. Quite simply co-ops must find ways to make membership meaningful once again. Carlo Borzaga touched on this in his Keynote address at the ICA Research Conference in Finland in 2011. He focused on the new opportunities for co-operatives and social enterprises in the changing landscape of the welfare systems in recent decades.[12] He noted, already thirty years ago that Laidlaw's report to the ICA Conference in Moscow in 1980 emphasised the evolution of co-operatives in the pursuit of general interest goals. Laidlaw challenged the ability of co-operatives to meet new social needs not adequately served by either the market or state. This opened up new spaces of action for co-operatives around the world, particularly as providers of welfare and social services. However, Borzaga notes that co-operatives in most countries were not able to exploit the new challenges and opportunities in recent decades, in spite of Laidlaw's clear analysis of these new opportunities and challenges. However, Borzaga went on to provide several examples of how the Italian co-operatives and social enterprises successfully adapted to changing circumstances and were therefore able to develop many new welfare services not available from either the state or market.[13]

Co-production and welfare service co-operatives

One way to promote democracy in the daily lives of co-operative members and ordinary citizens would be to actively promote co-operative alternatives to both public and private for-profit provision of basic welfare services. Co-operatives and social enterprises facilitate greater citizen participation in the provision of social services by promoting greater co-production and co-governance in public services. Co-production is the mix of activities that both public service agents and citizens contribute to the provision of public services. The former are involved as professionals or 'regular producers', while 'citizen production' is based on voluntary efforts by individuals or groups to enhance the quality and/or quantity of services they use. In complex societies there is a division of labour and most persons are engaged in full-time production of goods and services as regular producers. However, individual consumers or groups of consumers may also contribute to the production of goods and services, as consumer-producers.[14] The participation of citizens in the provision of welfare services through co-operatives makes a unique contribution to democratic governance not found either in public services or private for-profit firms.[15]

There are four kinds or dimensions of citizen participation in the provision of public-financed welfare services, including economic, social, political and service-specific participation. In an interesting study, Vamstad compared four types of childcare providers: parent co-operatives, worker co-operatives, municipal services and small-scale for-profit firms in two Swedish municipalities: Stockholm and Ostersund.[16] It is clear that most forms for providing childcare may allow a limited degree of parent participation in public-financed childcare, but this study showed that the parent co-operatives provide parents with unique possibilities for active participation in the management and running of their childcare facility. Only this form allows parents to become active co-producers of high quality childcare services for their own and others' children.

Multi-stakeholder co-operatives

Co-operatives are hybrid organisations that normally combine two functions or roles. The owners not only finance the co-op, they also supply the raw materials, provide the necessary labour or purchase its products. However, traditional co-operatives are single stakeholder firms, like agricultural or producer co-ops, worker co-ops, consumer co-ops, or building and tenant co-ops to name a few. Here a single group of stakeholders provides all or most of the finances, they 'own' the co-op and they thereby control it. Other stakeholders may contribute to the goods or services produced, but they do not own the co-op, nor do they have a voice in running it. They are therefore denied any influence in decision-making and have no claim to the eventual surplus produced. Thus, some important stakeholders, like the staff and/or consumers commonly find themselves excluded from influence in the management of the co-op and they lack a share in its surplus or profit. This clearly influences the incentive structures available to all groups that contribute to the co-op's surplus, since many have no influence or ownership claim.

A multi-stakeholder organisation is a firm or co-op that legally recognises more than one type of stakeholder, gives several of them representation in its decision-making structures and provides them with a share in the organisation's surplus or profit. Multi-stakeholder co-ops, therefore, make several stakeholders its owners, create governance structures that include various groups in the co-op's internal decision-making and provide them with a share in the surplus or profit. In addition, by virtue of doing so, they also contribute to the growth and spread of democratic attitudes and habits among the various owners, something that is highly uncommon in today's co-ops. Thus, multi-stakeholder organisations could conceivably play an important indirect role in inculcating and spreading democratic attitudes and habits among the general public, particularly for the staff, since it would expose them to a different reality forty hours per week for nearly forty-eight weeks per year as long as they worked there. This could contribute by making democracy a non-trivial aspect of the daily life of some ordinary citizens. Thus, multi-stakeholder co-ops would include citizens in their daily lives, perhaps in several roles, as financiers, suppliers, workers and consumers.

Creating trust and the provision of welfare services

Many countries in Europe are searching for new ways to engage citizens and involve the third sector in the provision and governance of social services. At a general level the reasons are similar throughout Europe. First is the challenge of an aging population, second is the growing democracy deficit at all levels, local, regional, national and European, and third is the semi-permanent austerity in public finances. In any given EU member state the reasons will vary and may be more specific; however taken together they imply a major legitimacy crisis for the public sector as a provider of welfare services.

In a European context, we need to consider the future of democracy and the welfare state, as well as the role of voluntary associations and co-operatives in renewing both of them. However, in order to do so, we also need to pay more attention to trust and understand how such organisations can create trust in the absence of a non-distribution constraint or American tax laws. Trust could and should provide many organisations found in the third sector, like social enterprises and co-ops, with a natural competitive advantage in the provision of welfare services, if correctly understood and actively put to use.

Social enterprises take several different forms in Sweden, including consumer co-ops, worker co-ops and voluntary organisations. Consumer co-ops can engage their members in the provision of welfare services, they can empower them as co-producers and can provide them with greater influence and control than many other alternatives. Consumer co-ops can, therefore, create trust between the consumers and providers of social services. Worker co-ops usually result in more engaged, committed and enthusiastic staff, which is often reflected in the quality of the services provided. Better quality services and more engaged staff can also result in greater trust between the consumers and providers of social services. Voluntary organisations that combine both the staff and clients as members function as multi-stakeholder organisations and can also contribute to greater dialogue, understanding and trust between the consumers and producers of welfare services.[17]

Trust is the key to the future in business, in particular when it comes to social services. Private commercial firms, on the one hand, recognise this, but they often lack natural ways of generating trust. They must rely on advertising and other strategies to try to achieve what comes naturally to co-operatives. The growing interest in corporate social responsibility (CSR) and consumer relationship marketing (CRM) in business schools are two expressions of the need for private companies to create more trust. Co-ops, on the other hand, have it naturally, but often fail to recognise trust as a natural competitive advantage of the co-operative form.

Conclusions and discussion: Making Membership Meaningful

Several theoretical and practical issues of political importance were dealt with in this essay. In brief, this essay dealt with the importance of major social change for organisational development, the importance of organisational growth and size for internal democracy, the importance of social goals for co-operative identity and the need to develop methods to promote greater stability in hybrid organisations like co-operatives. In particular, a dynamic model for co-operative development introduced the major stakeholders in co-operatives. This model was based on four separate and often opposing logics. Maintaining stability in organisations that have several logics rather than a single one and several dominant stakeholders rather than just one can prove problematic in the long run. Often a single logic will dominate, but if this happens for too long it can change the very nature of an organisation or co-op. We found clear evidence of this in the Swedish consumer co-ops, particularly in recent years.

More than fifteen years after the Centennial Meeting of the World Congress of the International Co-operative Alliance, ICA in Manchester, it is perhaps time to reflect more seriously on the theme of the report delivered at its 100th Jubilee. It was given the title *Making Membership Meaningful*.[18] All too often consumer co-operatives and other co-operative movements have done just the opposite recently, they have made membership meaningless, with the result that members eventually lose interest in them. Co-operatives in post-industrial society need to reinvent membership and relate it to activities and services that are more meaningful to their members and their daily lives. They need to develop a unique profile, one based on human needs and social values. They need to rediscover their social dimension in order to emphasise and take advantage of their natural competitive advantage. It is by promoting their social values and responding to the growing demand for welfare services that consumer co-operatives can play important economic, political and social roles in a globalized economy. In this way they could also contribute to the development and renewal of democracy and the welfare state in the twenty-first century.

The provision of co-operative social services becomes increasingly feasible and necessary for rejuvenating and sustaining both the co-operative movements and the welfare state. Co-ops must adapt to the changing needs and demands of their members and the citizens. In doing so, they can revitalize themselves and renew democracy, both internally and externally. They can make membership more meaningful and citizenship more participative. They can once again serve as a school of democracy and help to democratize the welfare state from within.

The time has perhaps come in many post-industrial societies to ask whether consumer co-ops should perhaps consider selling off some or all of their stores and reinvest their collective resources in the development of welfare services, where co-ops could and should have a natural competitive advantage.

Unfortunately, many such facilities were already sold by Co-op Sweden in 2005, not to reinvent or rejuvenate the consumer co-ops, but merely to keep afloat. This decision was made without any individual member discussion or participation. In the post-industrial or service society of Europe, citizens are increasingly dependent on social services in their daily lives. This motivates closer collaboration between the established co-operative movements and new social service co-operatives of the type found in Italy, Sweden and elsewhere and/or more sustained efforts by established co-operatives to provide basic social services for their members and all citizens.

It is often argued that when an organisation pursues multiple goals, some of which may conflict with each other, and that when it attempts to combine the interest of multiple stakeholders, some of which may compete with each other for scarce resources, it will be difficult for it to maintain its stability over time. Hybrid organisations are pulled in different directions, or torn apart by competing logics. Hansmann argued that the high transaction costs of decision-making in worker co-ops make them highly vulnerable and unstable.[19] The present study, however, also illustrates risks of allowing a single logic to dominate for too long in hybrid organisations, especially if it comes at the expense of other competing logics. Does this study simply illustrate the impossibility of ever marrying democracy with the market, of democratic control in co-ops; or does it perhaps suggest that the need to explore methods to ensure greater stability? Two methods were identified herein to help preserve organisational goals or prevent 'goal displacement', and to facilitate internal democracy. Both are highly central for maintaining democratic structures in co-operatives and other hybrid organisations with multiple goals and stakeholders. They are a regular social accounting and audit and multi-stakeholder representation in the internal decision-making of the co-op. These two methods, together with clear limits on the size of local co-ops and prohibitions against amalgamating them, would help to provide much greater stability to co-operatives and other hybrid organisations.

Endnotes

1 M. Yanis, *Creating a World without Poverty* (2007) quoted in Lars Hulgaard, 'Social Economy and Social Enterprise: An Emerging Alternative to Mainstream Market Economy?' *RCSW China Journal of Social Work* (2011), p. 13.

2 P. Hirst, *Associative Democracy: New Forms of Economic and Social Governance* (Amherst, 2004).

3 V. Pestoff, *Between Markets and Politics: Co-operatives in Sweden* (Frankfurt and Bolder, 1991).

4 Members in these thirty-nine local and regional societies retained their democratic rights of one member/one vote. However, only four per cent of them attended the Annual General Meeting in 2007.

5 The rural village of Åmot has a small local Konsum society. It was first started in the 1860s and re-established in the mid-1920s. Then in 1930 it purchased the grounds for its present store. In 1936 the association had 256 members, while sixty years later it claimed 372 members, from a total population of 497 inhabitants. In 2010 it remained an independent Konsum society, with 309 members. It continued to provide a dividend to its members in recent decades.

6 R. Dahl and E. Tufte, *Size and Democracy* (Stanford, 1973).

7 V. Pestoff, *Konsumentinflytande och konsumentorganisering – den svenska modellen* (Stockholm, 1984).

8 They are Svea (several large cities in middle Sweden), Stockholm, Norrort (the northern suburbs of Stockholm), Väst (Gothenburg & Bohus), and Solidär (southern Sweden, including Malmö). Together they claim nearly two million 'members', or more than three-fifths of the total three million 'members' of KF www.kf.se, 17 Aug., 2008.

9 It broke up again in 2008, but was replaced by a joint purchasing company, Co-op Trading A/S. The Finnish SOK wholesale unit of the consumer co-ops became a partner.

10 *Dagens Nyheter*, 13 Aug. 2010.

11 R. Gray, D. Owen, and C. Adams, *Accounting and Accountability. Changes and Challenges in Social and Environmental Reporting* (London and New York, 1996).

12 C. Borzaga, 'New Opportunities for Co-operatives and Social Enterprises in the Changing Landscape of the Welfare Systems' Keynote speech at the International Co-operative Alliance's Research Conference (Mikkeli, Finland, 2011) To be published in J. Defourey, L. Hulgaard and V. Pestoff, *Social Enterprise and the Third Sector – Changing European Landscapes in a Comparative Perspective* (London and New York, forthcoming).

13 Borgaza, 'New Opportunities'.

14 E. Ostrom, 'Crossing the Great Divide: Coproduction, Synergy, and Development', in M. D. McGinnis (ed.), *Polycentric Governance and Development. Readings from the Workshop in Political Theory and Policy Analysis* (Ann Arbor, 1999), ch. 15; R. B. Park, P. C. Baker, L. Kiser, R. Oakerson, E. Ostrom, V. Ostrom, S. L. Perry, M. B. Vandivort, G. P. Whitaker and R. Wilson, 'Consumers as Co-Producers of Public Services: Some Economic and Institutional Considerations' *Policy Studies Journal* 9 (1981):1001–11.

15 V. Pestoff, 'Towards a Paradigm of Democratic Participation: Citizens Participation and Co-Production of Personal Social Services in Sweden', *Annals of Public and Co-operative Economics*, 80/2 (2009): 197–224.

16 J. Vamstad, *Governing Welfare. The Third Sector and the Challenges to the Swedish Welfare State* (Östersund: Mid-Sweden University Unpublished PhD thesis 2007), p. 37.

17 V. Pestoff, *Beyond the Market and State: Social Enterprises and Civil Democracy in a Welfare Society* (Aldershot, 1998).

18 International Co-operative Alliance, *Making Membership Meaningful: Participatory Democracy in Co-operatives* (Manchester and Geneva, 1995).

19 H. Hansmann, *The Ownership of Enterprise* (Cambridge MA and Oxford, 1996).

New frontiers in democratic self-management

Rory Ridley-Duff

8. New frontiers in democratic self-management

Rory Ridley-Duff

Introduction

In this essay, the focus is on considering the way legal forms for co-operative enterprise are designed to meet the needs of members. In developing a critique of the investor-led firm that dominates discourse on business, I will critically evaluate the role of legal membership in establishing a co-operative enterprise and consider how an organisation's legal form can support the development of a co-operative identity.[1] The purpose is to distinguish conceptually between common ownership, joint ownership and co-ownership by comparing and contrasting model rules that have developed over the past 20 years, and their likely influence on future co-operative development.

I will argue that the mediation of business purpose and social identity influences the choice and development of an organisation's legal form. As the choice of legal form influences the power and wealth sharing arrangements of a co-operative enterprise, it is not a minor matter (particularly over the longer-term). Furthermore, the emergence of social enterprise has created a range of challenges to co-operative thinking based on common ownership by a single stakeholder group, with the result that hybrid models have developed to express co-operative values and principles in new ways.[2]

The essay is divided into four sections. In the first section, the impact of co-operative values and principles in framing a co-operative identity is elaborated. In this section, I distinguish co-operative principles from those that inform investor-led private enterprises. The concept of 'socialisation' is contrasted with 'privatisation' and 'nationalisation' to develop the argument that co-operatives socialise power, wealth and property irrespective of whether they are controlled by private or state interests. In the second section, I characterize approaches to developing a co-operative identity based on the extent to which they socialise and democratise capital. In this section, I distinguish common ownership from joint ownership and co-ownership models.[3] In the third section, we examine how these ideas and concepts have permeated different sets of model rules. In two cases, the model rules represent an evolution of co-operative models to make them more open to the participation of primary stakeholders. In a third case, we examine how a co-ownership model developed over time. Lastly, I draw together the arguments and consider whether emergent 'hybrid' co-operatives represent examples of progress or naïve forms of liberalism that inhibit development of a co-operative economy.

Values, identities and social practices

The interaction between social and legal identity, and the way this gives expression to co-operative values and principles, is at the heart of ongoing debates about the contribution of mutuality and co-operative enterprise to the social economy.[4] Deciding upon, and evolving, a particular legal form is an important formative process for the founders of any enterprise, including a co-operative. As Davies points out:

> It is the initial shareholders of a company who bring it into existence…and who become the first members of the organization thus created. Subsequent shareholders also become members of the company. The point is of theoretical, even ideological, significance, because the train of thought which makes the shareholders the members of the company leads naturally to making the shareholders' interests predominant within company law.[5]

The table below shows the significance of the legal arrangements in admitting shareholders to membership, and the different long-term outcomes that can occurs when a co-operative model is chosen over one designed to privatise ownership and control. In an article about football supporter trusts, a comparison is made between Barcelona and Arsenal football clubs:

Table 7 – The Camp Nou way

	Barcelona	Arsenal
Shareholders	142,000 members ('socios') One person, one vote	In 2006, there were four major shareholders who owned 87 per cent of voting shares.[6] By 2012, two shareholders controlled 96 per cent of shares.
Leadership	President elected by members for a four-year term (maximum two terms).	No meaningful elections. Chair of the Board decided by major shareholders.
Cheapest adult season ticket	£69	£885
Most expensive adult season ticket	£579	£1,825

Source: D. Conn, 'Barcelona's Model of Integrity Show Rights is Might', The Guardian, 17 May 2006, http://www.guardian.co.uk/football/2006/may/17/championsleague.europeanfootball, accessed 20 January 2010.

The body of law under which Barcelona is constituted is similar to the Mondragon co-operatives. The key difference, however, is that the members are football fans (consumers) rather than the workforce. When compared to an investor-owned firm, this arrangement leads to different *long-term* outcomes (both internally and externally). In the case of Arsenal (a privately-owned football club), the pricing strategy is set to maximise profit for financial investors (who dominate the group of shareholders). Shares are not publicly available and are traded in secret amongst a select group of people. Season ticket prices for fans are high. In the case of Barcelona (a football club owned by its fans), membership is offered to football fans rather than financial investors. This extends ownership throughout the community, dramatically reduces the cost of season tickets because the leadership group is chosen by supporters to act in their interests rather than the interests of financial investors.

Birchall distinguishes between three broad types of co-operative enterprise:

- Consumer co-operatives (owned by the users/buyers of a particular product or service);
- Producer co-operatives (owned by independent producers to market their produce);
- Employee co-operatives (owned and controlled directly by the workforce)[7].

All of these forms represent an alternative to the investor-led firm because the stakeholders admitted to membership are granted that status for a reason other than the supply of financial capital. It is this that differentiates co-operatives from capitalism. In the case of consumer co-operatives, it is the act of purchasing goods from the co-operative that provides the rationale for membership. In producer co-operatives it is the act of contributing produce, while in an employee co-operative, it is the act of contributing labour.

It is important, therefore, to understand the link between legal form and control rights. It would, for example, be easy to compare the wages of the footballers at Barcelona and Arsenal and conclude that the clubs are not so different. This would miss the social and economic outcomes for the 'consumers' of football rather than those who work to produce it. Similarly, we could compare the prices charged by the Mondragon co-operatives for the domestic appliances they manufacture or the agriculture produce they create, and conclude that they are not so different from the prices charged by Anglo-American corporations. This would ignore the social and economic outcomes for the producers of these goods, and how their lives differ from producers in Anglo-American corporations.[8]

The co-operative model, therefore, gives rise to the concept of a 'socialised' enterprise.[9] A working definition of what 'social' means in this context was developed by Ellerman.[10] He sought to clarify the ambiguous use of the terms 'public' and 'private'. He argued that 'public rights' (that is, those accorded to people as citizens) are different to 'public rights' acquired by the state. The former disperses power and influence to individual citizens while the latter concentrates power into the hands of politicians using the apparatus of the state. He refers to enterprises governed through personal (rather than property) rights as 'social'. Public enterprises are those controlled directly by the state and 'private' enterprises are controlled through property rights. Personal rights, he argued, are easily distinguishable from property rights because the latter can be inherited or bequeathed to others while the former cannot. Personal rights are acquired when someone joins an enterprise (or becomes a citizen) and cease when they die or cease to be a citizen. Socialised enterprises, therefore, are characterised by the efforts of managers and members to grant citizenship rights to primary stakeholders (producers, customers, employees) so that they acquire personal rights to control of the financial, social and human capital of their enterprise.

While 'socialisation' is linked to democratisation, it goes beyond voting rights to elect a leader. It extends to participation in the creation and maintenance of socially inclusive working practices that transform the nature and quality of human, social and financial capital. The concept is useful for problematising the social relations, wealth creation, intellectual property rights, surplus sharing and development characteristic of private, social and nationalised enterprises (see Table 8). It also crystallises conceptual differences between private and social enterprises, and how nationalisation does not necessarily 'socialise' wealth and power.[11]

A co-operative company, industrial or consumer society is organised on a different basis to a private company or state institution[12], and forges different behaviours amongst its stakeholders and members.[13] It is more 'socialised' than 'privatised' or 'nationalised' (see Table 8). Davies, not unreasonably, questions why the norms of private investor-led companies dominate western business education.[14] In private companies, the norm is to recognise founding and institutional investors as members, but to be more cautious about admitting directors, employees, customers and service users to membership. But why are primary stakeholders who produce and consume goods and services denied membership? The question is an important one because co-operative enterprises are typically designed to reverse or adapt this arrangement, and provide an anti-thesis to the privatisation of knowledge, property and capital[15].

Table 8 – Privatisation, Socialisation and Nationalisation

	Privatisation	Socialisation	Nationalisation
Key Characteristic	The acquisition of public/social rights by private individuals/corporations to bring capital** under private (management) control.	The sharing of public/social rights with primary stakeholders* so they can jointly control an enterprise's capital, and participate in enterprise management.	The acquisition of public/social rights by a government body so the state can exercise management control over an enterprise's capital.

	Privatisation	Socialisation	Nationalisation
Human Capital Examples	Copyright Law, Encyclopaedia Britannica, Patents.	Creative Commons, Wikipedia, Open Source movement	Legislation to limit duration or scope of copyrights/patents.
Working Practices	Decided by managers/ governors who act for the private interests represent, sometimes after consultation with primary stakeholders.	Decided by participatory (democratic) management practices, or by elected managers/ governors accountable to primary stakeholders.	Decided by appointed officials/elected politicians to fulfil a political programme, sometimes after consultation with an electorate or constituency.
Intellectual Property	Acquisition of rights to use and commercialise fully formed ideas and designs created by producers/employees.	Distribution and/or sharing of fully formed ideas so producers can use, share and exchange them in new creative works.	Acquisition of fully formed ideas by a government body so it can be exploited for public or state benefit.
Social Capital Examples	Marks & Spencer, IBM, Hewlett Packard	Mondragon, John Lewis, Co-operative Group	Direct government control of employee/ consumer relations
Management Control	Avoidance/rejection of collective bargaining on working conditions and; rejection of primary stakeholder participation in strategic decision-making.	Acceptance of collective bargaining arrangements on working conditions; workforce and/or consumer participation in strategic decision-making.	State control of working conditions. State control of participation rights and interpretations of 'national interest'.
Governance	Exclusion of primary stakeholders from participation in governance and audit (except as providers of information).	Equal participation of primary stakeholders in governance and audit, and/or accountability to primary stakeholders.	Participation of government appointees/ politicians in governance and audit, and/ or accountability to politicians.
Financial Capital Examples	Arsenal FC, Sainsbury's, Holland & Barrett	Barcelona FC, Coop Group, Suma Wholefoods	Armed Forces, Central Banks, Local Governments
Ownership	Individual or corporate control over membership rights; shares issued in exchange for financial investments.	Open membership/ capital rights for primary stakeholders; shares issued in exchange for labour/consumer participation.	State control of membership and share capital, and/or statutory controls over their issue to primary stakeholders.
Investment	Capital by (private) members or banks (loans) or capital markets (equity shares).	Capital provided primary stakeholders and private/ public sources (if they do not compromise member-control).	Capital provided from tax revenues; private involvement in government projects under contract.

All forms are retained to the extent that they produce the outcomes that are sought, and can develop and protect the educational, political and economic environments needed to sustain them.[16] Co-operative legal forms have evolved to suit the needs of primary stakeholders rather than financial investors. In the context of a discussion about co-operatives, the question is whether a given co-operative form effectively 'socialises' human, social and financial capital, prevents control by private interests and/or state bodies, and leads to desired changes in enterprise performance. In the next section, I start a debate about the nature of co-operation and link it to the concepts of common, joint and co-ownership.

The nature and scale of co-operation

Many writers on the left of the political spectrum have tracked the tendency of people in a society to become imbued with particular ways of thinking, and for the ideas of a dominant class to become pervasive in educational, governmental and economic institutions.[17] Marx's work remains helpful to appreciating the pervasiveness of the ideas of the dominant class, as well as what can happen when other classes develop the consciousness needed to challenge the social and economic institutions of the dominant class.[18] Revolutions, whether fought violently in the public sphere or silently in the privacy of one's own mind, occur when a class of people previously subordinated by a socio-economic system start to establish ways to circumvent systems of control and create new political and economic institutions.[19] At any particular point in time there are likely to be forms of organisation that support and challenge the dominant ideology, with their prevalence and influence changing over time.[20] As Hill points out, the existence of organisations that do not conform to dominant norms, and particularly their longevity and growth, can be advantageous in an educational setting because it raises questions about taken-for-granted assumptions.[21]

Marx, for example, tracked how privately financed merchants increased their control over economic and political thought until their way of thinking dominated the institutions of industry and government.[22] We can observe that dominance today in the popularity of TV programmes like *The Apprentice*[23] (in which Alan Sugar famously tells participants 'you're fired'), and *The Dragon's Den*[24], in which celebrity entrepreneurs select enterprises in which to make investments. We can also observe the challenges to that dominance by a growing number of *Occupy protests*, the growth of the fair trade movement[25], and internet-based organisations in civil society that act collectively to bring about social change.[26]

Kalmi tracks how the dominant neo-liberal approach to business embodied in *The Apprentice* and *Dragon's Den* – based on the primacy of investor interests and management control – has 'colonised' economic and business textbooks to the exclusion of co-operative economics and democratic management.[27] This ideological dominance, however, does not correlate to what is actually occurring at a grassroots level. He found that changes in textbooks and university curricula across Europe were not matched by wider changes in his own (or the global) economy. Even as discussion of them in academic texts falls, the scope and number of co-operative enterprises has been steadily growing.[28]

Hill finds much the same in an American-Canadian context.[29] Despite widespread membership of co-operatives and credit unions amongst US and Canadian citizens, most university textbooks on economic development fail to mention, define or discuss either co-operatives or credit unions. Hill helpfully suggests how economics (and by implication all disciplines concerned with enterprise creation and development) can benefit from discussing co-operative models. Their strong presence in only some markets raises questions about the appropriateness of different enterprise models to different contexts. Their continued existence problematises the assumption that only investor- and state owned enterprises can form the basis of an economy. The histories of co-operatives and credit unions become the starting point for shortcoming in planned and market based economics. Lastly, co-operative approaches to managing, owning and allocating resources can be discussed in relation to the democratic values advocated within liberal democracies.

Reshaping perceptions of the co-operative economy

Perceptions of the scale of the co-operative economy are being reshaped by the publicity surrounding the 2012 United Nations International Year of Co-operatives. Publicity materials make three substantial claims: that membership of co-operatives worldwide has grown to one billion (200 million more than in 1994); that job creation is now 20 per cent higher than multi-national corporations combined; and that co-operatives secures the livelihoods of three billion people (half the world's population).[30] These claims can be traced to reports for the United Nations in 1994, and the ILO in 2001, as they each framed a response to the co-operative movement's growth. Some claims are grounded in the ICA's own membership and employment data[31], updated for the launch of the UN International Year of Co-operatives.[32] However, the claim that co-operatives secure three billion livelihoods appears more tenuous, derived from a creative interpretation of a report that 2.3 billion people (59 per cent of the working age population) have a 'close relationship' to a co-operative.[33] Even if a rhetorical strategy, the question 'why are co-operative businesses – given that they generate employment commensurate or greater than all multinational corporations combined – not studied more widely in business schools?' remains a legitimate and unanswered question.

In addition to single stakeholder co-operatives (producer, consumer and worker Atherton, Birchall, Mayo, and Simons delineate different types of *multi-stakeholder* co-operative that promote solidarity between primary stakeholders.[34] The argument here is that a greater 'co-operative advantage' can be achieved if the inter-dependence of producers, workers and consumers is acknowledged and equitably managed.[35] So, a contemporary theoretical understanding of co-operatives requires sensitivity to the diverse range co-operative forms, the socio-economic context of the situations in which they emerge, and the range of ways in which groups of people seek to express co-operative values and principles. Ownership mechanisms vary from non-equity based schemes in which assets are placed under common ownership, to equity based schemes in which the each member is allocated a share of the property created by the co-operative, with entitlements to interest and dividends on their capital and labour contributions.

To explore this diversity, we go to each end of the historical spectrum and consider the works of Owen and Parnell.[36] Parnell takes the view that humans are not 'naturally' altruistic or selfish, and that co-operation occurs whenever people establish that co-operating will advance their individual, family or group interests more effectively than acting alone. Their propensity to be altruistic and selfish will depend on the situation, the knowledge they possess regarding the costs and benefits of co-operation, and their capacity to interpret the level of threat in a given social situation. As he points out:

> Dishonest, sharp practice and unwarranted selfishness are infectious forms of behaviour and are fostered when people feel powerless and that they are being treated unfairly. Conversely, if as members of a CME [co-operative and mutual enterprise] they are treated fairly, learn to co-operate and begin to recognise the value of interdependence, then these kinds of behaviour will also be contagious.[37]

This view accords with the conclusions of Leonardi, Nanetti and Putnam after a longitudinal study of Italian regional government.[38] They found that high-trust and low-trust cultures tend to reinforce themselves, and that high-trust cultures lower transaction costs, leading to higher levels of citizen satisfaction, as well as improvements in economic and social well-being. Their conclusion that democratic cultures create and disperse wealth more quickly and equitably than authoritarian culture add substantially to the case for more discussion of co-operative models.

Parnell, like Robert Owen, views the human character as malleable, as something that is affected by the education that is provided to organisation members.[39] Unlike Owen, however, Parnell saw co-operativism as a development of individualism, in which people voluntarily band together on account of a *common bond*. The bond can vary from a shared desire to buy healthy food at reasonable prices (loose), or shared interest in a particular industry (moderate), to passionate support for a particular sports team (tight). For Parnell, the common bond is paramount, and becomes the rationale for the offer of membership. It follows that there will be a wide array of enterprises, each based on their own common bond, but which will be equipped to band together into a *co-operative commonwealth* and contribute to evolution of a new society.

Owen on the other hand, argued that co-operation needed to be carefully planned from the outset and supported by an education system that teaches co-operative principles from an early age.[40] He attempted to create co-operative communities (like mini city states) 'to induce each man to have charity for all men'. He believes firmly that this goal was achievable because the human mind had a 'plastic quality' that could be 'moulded' until it reflected rational wishes and desires of an educator. Owen's communitarian sentiments, while progressive in terms of educational pedagogy, still represents a top-down model of social activism reminiscent of Fabianism, in which wealthy people gift their knowledge and assets to develop the working class while retaining control of the value systems that guide their social development. Parnell's arguments come across as more rooted in social liberalism, reminiscent of the arguments of Friere that grassroots action contribute to the creation of a new pedagogy through the co-discovery of alternatives:

> Some may think it inadvisable to include the people as investigators in the search for their own meaningful thematics: that their intrusive influence (n.b., the "intrusion" of those who are most interested – or ought to be – in their own education) will "adulterate" the findings and thereby sacrifice the objectivity of the investigation. This view mistakenly presupposes that themes exist, in their original objective purity, outside people – as if themes were **things**. Actually, themes exist in people in their relations with the world...[41]

Frequently, the divisions that arise between advocates with communitarian and liberal orientations to co-operativism is not that they differ in their commitment to democratic control of capital or a fairer society, but that they differ in their view of how this can be achieved.[42] Different assumptions about 'best practice' produce different organisational solutions and systems for membership, each believed by their advocates to increase social inclusion and workplace democracy. Owen's perspective[43] is not simply communitarian (based on a model of human character that is formed through the act of social interaction with an educator), but also unitary in that he expected elites to shape co-operative institutions for the common good.[44] Parnell's view is not just more individualistic in its philosophical grounding, but also more *pluralistic* in the expectation that a growing number of semi-autonomous co-operatives will create networks that collaborate in each other's development.[45] Figure 4 connects these assumptions with conceptualisations of ownership and control.

Figure 4 – A Meta-Theoretical Model of Co-operative Ownership

	Unitarism Society is best served by creating consensus	**Pluralism** Society is best served by creating consensus
Individualism Identity is a product of free will	**Private Ownership** Enterprises owned and controlled by founder(s) and investors to the exclusion of primary stakeholders (Not a co-operative)	**Joint Ownership** Enterprises owned by a primary stakeholder group through individual member accounts (Mutuals/cooperatives jointly owned by individual members)
Communitarianism Identity is socially constructed	**Common Ownership** Enterprises owned and controlled by a legal entity for a primary stakeholder with no share capital issued (e.g. mutuals/cooperatives owned by trusts, mutuals and cooperatives)	**Co-ownership** Combining common and joint ownership systems to promote social solidarity between stakeholders (Mixed ownership systems that recognise individual organisational members)

Adapted from R. J. Ridley-Duff, 'Communitarian Perspectives on Social Enterprise', Corporate Governance: An International Review, 15 (2007), 382–92, p. 384.

A much discussed example of *common ownership* is the John Lewis Partnership. As people join the John Lewis Partnership they become 'partners' and beneficiaries of an Employee Trust that owns John Lewis Department Stores and Waitrose. Employees do not buy shares in their employer, nor do they receive dividends on shares. Instead, they become beneficiaries of a trust that exists to own their employer for their benefit, and which receives its trading surpluses. Over the last decade bonuses ranging from 9–20 per cent of annual earnings have been paid out in addition to wages. Partners elect 80 per cent of 82 members of a partnership council that handles non-commercial aspects of John Lewis, and five of the twelve commercial directors. In addition, there are store councils and management committees, a company-wide magazine called *The Gazette* and local magazines called *The Chronicle* in which any matter raised by a partner must be responded to by the relevant manager. Finally, the company operates a system called 'The Registry' in which staff are employed to liaise directly with members about the performance of their managers, enabling partners to by-pass line management arrangement if they want to express their views.[46] *In a **common ownership co-operative**, all property rights are indivisible, and surpluses are allocated by democratically controlled bodies to member and co-operative development.*

The Co-operative Group, on the other hand, operates a system of individual membership. Consumers, upon joining, have an account opened for them, into which their share of profits are paid every six months. Each member's share of profits depends on their level of trading across the group of companies (including food retailers, pharmacies, travel companies, banking and financial service institutions, funeral directors, legal services and a motoring company). Rather than store councils (as happens at John Lewis), the Co-operative Group operate area committees to which co-operative members are elected. There are also regional committees to uphold co-operative values and principles.[47] Unlike John Lewis, Co-operative Group members have individual accounts and hold share capital in the organisation they own (albeit only a £1 share per member). Payments are – legally speaking – dividends, not a bonus that is paid in addition to wages. This is recognised in the tax laws that are applied. In a review of operational practices[48], it was recommended that 70 per cent of distributable profits should be paid as dividends to members, while 30 per cent should be retained for community projects that express co-operative values and principles. This being the case, the Co-operative Group is more readily understood as a *jointly owned* enterprise which allocates some financial reserves to common (indivisible) ownership. *In a **jointly owned co-operative**, members of a primary stakeholder group contribute capital and receive a share of surpluses, with the remainder allocated to indivisible reserves that are democratically controlled by members.*

A variation on this model is practiced in the Mondragon Corporation.[49] In the industrial cooperatives, member accounts are created at the local credit union (Caja Laboral – see below). Members contribute capital (typically equivalent to about two months salary) of which 20 per cent is immediately allocated to collective reserves. Each year, interest is paid on members' capital, and between 30–70 per cent of surpluses are allocated to their accounts each year. The balance is allocated to reserves and joint enterprises that fund the future development of the network. While the amounts of capital invested and distributed to individual members are higher than the Co-operative Group, the system still observes the principle that members contribute share capital and receive dividends for their capital contribution. It is a system of *joint ownership* in which a substantial proportion of wealth is allocated to reserves and new ventures that are *commonly owned*.

An interesting evolution of this, and an example of co-ownership, is the Caja Laboral. This is the credit union created to support the Mondragon Corporation and its individual members. While John Lewis is wholly employee-owned, and the Co-operative Group a wholly consumer-owned[50], the Caja has features of both. Both employees and customers are members, and the governing council comprises four elected employee representatives and eight elected customer representatives.[51] The distribution of profits (surpluses) to members of the workforce is based not on the profitability of the credit union itself, but on the profitability of its co-operative customers.[52] This provides a powerful incentive for staff to work in the interests of their co-operative customers and help them achieve sustainable growth. This hybrid arrangement results in an unusually close relationships between co-operative members and credit union staff, illustrating how co-ownership models can promote solidarity between primary stakeholders.[53] *In a **co-owned co-operative**, members of more than one primary stakeholder group contribute capital and receive a proportion of trading surpluses, with the remainder allocated to democratically controlled reserves.*

In the next section, I examine the evolution of three sets of model rules to explore the social forces that encourage single and multi-stakeholder ownership of co-operatives, and the development of common, joint and co-ownership.

Case studies in democratic management

The act of including or excluding particular groups from membership (and thereby limiting their voice in making decisions about wealth creation and distribution) is one of the processes that affects the distribution of power and wealth. In different bodies of academic theory, the behaviour of 'other' stakeholders is framed as problematic. For example, in private companies, the behaviour of directors and managers is framed as the 'problem' of corporate governance by shareholders.[54] In both management and economic theory, the 'problem' of staff motivation receives considerable attention.[55] In co-operative theory, the behaviour of outside investors is framed as a 'problem', so much so that they are frequently excluded from membership.[56]

In each of these cases, the rights of the dominant group are taken for granted. Legal and governance theory, in relation to each form, develops to address the perceived 'problems' created by the exclusion of others groups, and their attempts to compete for power and wealth. For example, as Vanek points out, traditional management theory regards labour as a cost to be minimised by paying a fixed wage in line with labour market 'prices'.[57] This may apply equally in private companies (to maximise investor returns) and charities (to maximise the funds available for charitable projects). As Kalmi argues, consumer co-operatives are not exempt from this mindset as they have an incentive to maximise dividends for consumer-members.[58] As a result, they may adopt HRM practices characteristic of investor-led companies.[59]

The reverse of this mindset can exist in charities and co-operatives with regard to outside investors. As Ridley-Duff and Bull state:

> In this case, external investors are not permitted to buy equity in the charity or co-operative (although such rights are preserved when the charity or co-operative wishes to buy equity in other enterprises). If external investment is permitted, the rights of investors are reduced either by barring them from membership, or adjusting their membership rights so that they do not acquire decision-making rights accorded to full members.[60]

As I will argue below, however, model rules that have evolved out of co-operative members experience of challenging single stakeholder model as the preferred model for co-operative development. Each reformulates the constitutional settlement and role of democratic bodies to manage the competition and conflict that arises when primary stakeholders compete for power with external funders and investors. In examining the theoretical underpinning of these developments, it is worth recalling the comment of Michels' that:

> Democracy in large measure rests on the fact that no one group is able to secure a basis of power and command over the majority so that it can effectively suppress or deny the claims of the groups it opposes.[61]

These sentiments reflect the line of argument in Pateman, Ellerman and Turnbull who review arguments for participative democracy in enterprise development.[62] Each emphasises how democratic rights attached to corporate citizenship rather than private property have a transformative effect on levels of participation as well as the character and quality of enterprise performance.[63] Attempts to institutionalise arrangements in business so that 'no one group is able to secure a basis of power and control over the majority so that it can effectively suppress or deny the claims of the groups it opposes' represents a radical evolution in business governance (not to mention a considerable challenge).

Emergent forms of co-operative, however, started to develop in the mid-1990s based on an argument that co-operative businesses would thrive more effectively as multi-stakeholder enterprises.[64] Moreover, they offer an alternative strategy to charity for poverty alleviation, and an alternative to private sector attempts to induce greater commitment from employees through high-commitment HRM practices.[65] Their approach involves rewriting business rules to support socialisation and solidarity between primary stakeholders.[66]

New frontiers in co-operative business models

In this section, I examine three sets of model rules (see Table 9) that have evolved from practice which attempt to recognise and legitimise the interests of primary stakeholders. I will firstly explore key characteristics of each set of rules by discussing how they attempt to change the relative balance of power. Subsequently, I will explore the extent to which different rules *still* privilege one group over others and shape levels of participation in decision-making. In two cases, the model rules developed out of a co-operative context. In the third case, a co-operative solution was used to modify a co-owned company and increase co-operative ownership and management.

At first glance, each set of model rules appears to enfranchise both internal and external stakeholders. The *Cooperative CIC Model* (Case 1) provides membership options for both service users (consumers) and workers (employees), but has no specific provision for financial investors. The decision to use a Company Limited by Guarantee, rather than one limited by shares, provides for membership that confers voting rights, but no automatic rights to profits and assets. As a CIC, the rules include an *asset lock*: a clause naming a registered charity or other asset-locked social enterprise to which residual assets will be transferred upon dissolution. In an unadapted form, Case 1 combines a multi-stakeholder approach to governance with a common ownership model for assets.

Table 9 – Multi-stakeholder Model Rules for Co-operatives

Model Rules	Brief Description
Case 1 Co-operative CIC Model	Designed and published by Co-operatives UK in response to the introduction of Community Interest Company legislation in 2005. Underpinned by a Company Limited by Guarantee, the model rules are framed to encourage active service-user and workforce membership on the basis of one-person, one-vote, with a commitment to consult: • Employees • Funders • Suppliers • Customers • Community representatives

Model Rules	Brief Description
Case 2 NewCo Model	Designed by Morgan Killick and Bill Barker in 2002, with support from the Sheffield Community Economic Development Unit. Underpinned by a Company Limited by Shares, a 2004 version gave control and decision-making power to three classes of shareholder, and investment rights to a fourth: • Class A Shares (for social entrepreneurs) • Class B Shares (for charities and social enterprises) • Class C Shares (for employees) • Class D Shares (for supporting organisations)
Case 3 Surplus Sharing Model	With a heritage stretching back to the work of Guy Major and Gavin Body in the mid-1990s, the surplus sharing rules developed by Rory Ridley-Duff at Sheffield Business School embrace co-operative principles across the labour/capital divide. The rules provide for active membership control on the basis of one-person, one vote, with special provisions for issuing: • Founder Shares • Labour Shares • Investor Shares

Based on cases 7.2, 7.3 and 7.4, cited in R. J. Ridley-Duff, and M. Bull, Understanding Social Enterprise: Theory and Practice (London, 2011).

The *NewCo Model* (Case 2) provides for three groups to receive ordinary shares: founding social entrepreneur(s) and investors (Class A); social enterprises and charities (Class B); and employees (Class C). Originally the balance between the shareholdings in the three groups was unequal. Later, 'social equity' preference shares (Class D) were created to enable support organisations to invest in the enterprise and received a fixed dividend. An interesting recent development in one company using NewCo model rules (ESP Project) is the formation of worker cooperative by staff to acquire Class B shares. This has transformed the organisation from a hybrid social enterprise to a co-owned enterprise majority controlled by the workforce (with both individual and joint holdings).

The final *Surplus Sharing Model* (Case 3) creates shares for founders (*founder shares*), suppliers of labour (*labour shares*) and suppliers of capital (*investor shares*). Labour shares entitle holders to a proportion of surpluses (typically split 50/50 with investor shareholders). Founder shares recognise the interest of founding members in protecting the democratic ethos and social objectives of a co-operative. Within each group, one-person, one-vote principles apply once membership grows beyond a fixed number of members. While this would not achieve recognition as a *bona fide* co-operative, over time (as founder members leave or die and their shares are cancelled) the enterprise can transform into a solidarity co-operative with both labour shareholders and investor shareholders sharing control and wealth distribution. On the assumption that members of the workforce also hold investor shares, producers will always have a controlling interest. However, a simple adaptation of rules at incorporation can provide for a 50/50 split between consumer members who 'invest' through their trading activities, and worker members who 'invest' through their labour contribution.

What is striking about all these models is that they seek to change the nature of company membership so that both internal and external stakeholders have voting rights, and in two of the three models, a defined process for wealth acquisition and distribution within a member controlled structure. This accords with Ellerman's advocacy that property rights found in an investor-owned firm should be unbundled and separated into personal rights and property rights.[67] Rights to vote and receive a share of surpluses become personal rights of primary stakeholders (that is, right allocated to those who work and/or trade with the enterprise). Other right to organisational assets remains governed by property rights (so that both past and present members benefit from any distribution of them, as well as any appreciation in their value).

Of the three, only the *Cooperative CIC Model* (Case 1) can be described as common ownership (that is, that monies invested are locked into the development of a commonly owned enterprise with assets held in trust for community benefit). Case 2 represents a form of co-ownership, with blocks of shares held by different interest groups (founders, social economy shareholders and workers). The precedent of forming a worker co-operative to buy out social economy shareholders creates an innovate way to handle succession issues. In principle, there is no barrier to also creating a consumer co-operative to manage the shareholding of customers and/or service users. Case 3, on the other hand, recognises that the *same* people might have different relationships to the enterprise (as founders, providers of labour, and financial supporters) and seeks to reconcile this through representing these as share classes. Unlike the recently developed Somerset Rules[68] (in which members must choose which class of shares they will hold), Case 3 opts to represent the multiplicity of interests that each member has to the co-operative while retaining one-person, one-vote principles for ordinary resolutions and key decisions.

A review of the histories of the each set of model rules shows the trend towards the creation of solidarity co-operatives that embrace co-ownership principles, and which (in two cases) resemble Ellerman's notion of a 'hybrid enterprise'. The *Cooperative CIC Model* (Case 1) is rooted in historical connections to the co-operative and industrial common ownership movement (ICOM), so it is unsurprising that there is no provision for equity investment. It was developed in response to enquiries requesting a co-operative model that integrated the provisions of the Community Interest Company (CIC) regulations.[69]

The other models have a more mixed heritage. The *Surplus Sharing Model* (Case 3) was initially a product of a co-operative encountering problems raising finance from both members and external parties. The first iteration of the rules were developed when it was found that government funding for co-operatives could not be accessed without the ability to convert loan finance into equity.[70] The rules were further developed after collaborations with employers seeking to extend employee-ownership, with the goal of facilitating trust and community ownership alongside co-operative management. Of interest here is a mechanism to facilitate a gradual 'succession' in ownership (to the workforce) that does not involve a trade or private sale to outside interests. The *NewCo Model* (Case 2) on the other hand, was conceived during an attempt to establish an ICT organisation servicing third sector clients. The model aimed not only to provide services, but also to share profits with recipients of the services provided. Interestingly, this allowed customers to share the costs of establishing the enterprise, and shape the way that services are provided to meet their needs. Help was provided by a community enterprise development unit which accepted the need to reward founders and investors as well as employees and customers. Whilst not a co-operative during its early years, the co-ownership form developed over time to embrace co-operative values and principles.

In each of the models, various rights are allocated to different classes of shareholder. Gates describes the rights that can be defined in Articles of Association.[71] These are summarised, with reference to different types of co-operative, in Table 10.

Table 10 – An Analysis of Member Rights in the Case Studies

Rights	Description
Liquidation Rights	Liquidation rights enable shareholders or creditors to force a company into liquidation if it becomes apparent that it is insolvent, likely to go insolvent, or is unable to pay its creditors. As Jensen (2006) argues, liquidation rights also give investors the ability to force a profitable company into liquidation (either to remove competition or cash in the value of its assets). In all sets of model rules, the use of multiple shareholders classes makes it harder to liquidate a company unless primary stakeholders are in agreement.

Rights	Description
Appreciation Rights	Appreciation rights define how the value of an organisation is reflected in its share price. If appreciation rights are defined, each share is based on the value of the company divided by the number of shares issued. A CLG (or CIC constituted as a CLG) has no shares, and therefore does not grant appreciation rights. Case 1 shares do not appreciate in value, but Cases 2 and 3 permit variations in share price to reflect the value of the enterprise. Case 2 denies appreciation rights to Class D shareholders, while Case 3 denies appreciation rights to founders (although they can acquire these rights through contributing labour and financial capital). The granting of appreciation right (through share issues or payments into a capital account) can help substantially with the recruitment and retention of members.
Transfer Rights	Transfer rights permit the transfer of assets and shares to members or other legal entities. Shares may not be transferable to prevent their acquisition by interests unsympathetic to the social aims of the co-operative, or to ensure that voting and incomes rights are retained by active members. Case 1 issues no share capital, but permits the transfer of other assets at market value. Case 2 issues share capital, but does not permit the sales of shares by one shareholder class to another. Case 3 does not permit the transfer of labour shares, but allows investor shares to the traded, and founder shares to be gifted.
Income Rights	Income rights define how income can be derived from co-operative membership (via loan interest and/or dividend payments). In co-operatives, there may be a cap on loan interest and/or dividend payments. Case 1 has no share capital and – as a CIC – is subject to statutory caps on payments to members. Case 2 allows shareholders in Classes A, B and C to receive dividends on shareholdings. Case 3 includes rules that ensure surpluses are distributed 50/50 between labour and investor shareholders, and that 25 per cent of surpluses are issued as investor shares to labour shareholders. This ensures that an increasing proportion of shares and dividends accrue to producers.
Voting Rights	Voting rights influence who can participate in decisions on mergers, acquisitions, dissolution, rule changes, and the election of a governing body and/or company officers. Cases 1 and 3 establish 1 person, 1 vote principles. Case 2 allows voting based on shareholdings, but is structured so that two stakeholder groups must be in agreement before a resolution can be passed. the creation of a worker co-operative holding class B shares means that one person, one vote principles apply to the casting of many shares. Case 3 requires one-person, one-vote majorities in each class, plus 75 per cent in favour overall, to pass a special resolution (required for mergers, dissolutions and rule changes).
Information Rights	Information rights define who can access information held by company officers and staff, and what information is covered. Rights may be extended only to members of the governing body, or to all members. In all Cases (1, 2 and 3), information rights are granted to all members during working hours.
Public Rights	Public rights can include a 'golden share' to protect the public interest, or social objects that are approved by the Charity Commission or Community Interest Company Regulator. Case 1 is subject to public rights and regulation by the Community Interest Company regulator, but Cases 2 and 3 do not grant specific public rights. Instead, they protect their social objectives by requiring collaboration between stakeholders to make major changes.

The Articles of Association define voting rights at general meetings, board meetings, and the powers of co-operative officers between meetings. They can also be used to distribute rights to: a proportion of annual trading surpluses or profits (however this is expressed); a proportion of the organisation's assets. Where the rules declare there is 'no share capital', the result is common ownership of the enterprise's assets. Even where this is the case, the Articles of Association will define who can be a member, the rights and responsibilities that members acquire, and the powers that members have to elect and control executive managers.

The *NewCo Model* allocates most rights to founders and directors. The board is free to exercise its powers largely unchecked by the wider membership who are cast mainly as beneficiaries. The *Cooperative CIC Model and Surplus Sharing Model* build in greater powers for the wider membership. They both contain clauses on the operation of general meetings (on the basis that these would be expected to take place regularly) as well as board meetings (which normally take place monthly). Importantly, all sets of rules require executives to maintain open management systems and grant information access to all members during normal working hours.

Of the three examples, only the *Cooperative CIC Model* – constituted as a Company Limited by Guarantee – is likely to be a good vehicle for fundraising from grant giving bodies and charitable trusts. While this is not usually the priority of co-operatives trading in commercial markets, it can be a concern in enterprises created for community benefit who may contract with public authorities, local government bodies and charitable trusts. These co-operatives can benefit from the inclusion a dissolution clause that secures access to funds supporting public/community benefit projects.

A CLG (or 'asset-locked' enterprise) is not as attractive, however, for raising finance from primary stakeholders (or external investors) because the arrangements rarely permit a return commensurate with the risks associated with an unsecured investment. Faced with a choice between investing in one's own co-operative or some other saving/investing scheme, a co-operative has to make an offer that is sufficiently attractive to compete with other investment schemes. In the cases reviewed, while all the enterprises support the building of social capital through structures that increase voice and governance rights, only two explicitly aim to build members' financial capital as well.

While each set of model rules has a long history of intellectual development behind it, the momentum behind the creation of solidarity co-operative models continues. Somerset Rules – available since 2009 from Somerset Co-operative Services – entrench multi-stakeholder principles at the point of formation. As their website stated in December 2011:

> …we applied to the Financial Services Authority to become a "sponsoring body" able to register new IPS co-operatives. That was so we could create a new standard format for co-operative rules – multi-stakeholder co-operatives, also known as "Somerset Rules". These rules have certain advantages over existing model rules provided by Co-ops UK and others. They enable a co-operative enterprise to be "shared" by more than one group of stakeholders. For example, a community supported agriculture scheme could be 50 per cent controlled by producers, and 50 per cent by consumers. Or a business could be 60 per cent controlled by its workers, and 40 per cent by the local community.

This development brings the multi-stakeholder principle into the traditional heartland of co-operatives (Industrial and Provident Society Law). Multi-stakeholder model rules are now formally recognised by Co-operatives UK in its document on co-operative identity.[72] Industrial and Provident Society (IPS) rules were popular throughout the UK and former colonies of the British Empire in the nineteenth century, particularly in organisations that protected the health and well-being of the community. As both the state and private sectors retreat from welfare and community enterprise, the IPS form is making a comeback as groups of citizens take ownership of local sports clubs, community shops, care organisations, housing and health services.[73] Like Case 3, Somerset

Rules enable individual members to share in both dividends and the distribution of collective assets (although this is limited to under 30 per cent of the total). IPSs incur higher registration fees, but lower legal fees for community share issues, so they are now providing a cost effective approach for community ownership.[74]

Critique and conclusions

Close examination of each multi-stakeholder model reveals that they are not free of potential conflicts between primary stakeholders, and that the relative power of one primary stakeholder over another is likely to remain an issue. As such, they are vulnerable to the criticism that they constitute a naïve form of liberalism that ignores or glosses over disparities in power, and which might even entrench and reproduce existing asymmetries of power. The recognition of 'other' stakeholders does not necessarily mean they will participate equally or achieve the collaborative culture that their advocates expect them to create.

Nevertheless, each set of model rules reopen the question raised by Davies regarding who can be a company member, and the rights and obligations they acquire through membership.[75] Each acts as a template in reframing business norms so that *corporate citizenship* either limits or replaces *property rights* as the basis of membership. Philosophically this represents a shift away from financial capital as primary, to financial capital as only one form of investment. The recognition of customers, producers and employees as investors (through their trading, producing and labour contributions) is a paradigm shift in business thinking.[76] While devising a set of rules does not guarantee that the rules are followed, each emergent model challenges private sector norms in a number of ways (informed by the social contexts in which they developed), and shifts business thinking towards a combination of the representative governance models favoured by Schumpeter and the participative democracy envisaged by Pateman.[77]

The model rules discussed in this chapter provide templates for how practitioners have sought to express co-operative identity and socialise the role of human, social and financial capital in enterprise development. In doing so, they provide concrete expressions of common ownership, joint ownership and co-ownership that contribute to the development of a co-operative economy. Importantly, this goal is not achieved by superimposing employee and stakeholder consultation on top of existing charity or company structures. Instead, there is an attempt to rewrite the legal principles and social norms on which business activity is based in order to reframe what a co-operative can achieve.

New configurations for co-operative membership allocate rights beyond a single stakeholder group and seek to align the social and legal identities of an enterprise to the participatory practices needed to develop and sustain it. New multi-stakeholder models show that 'labour' still needs customers and capital to thrive, and that 'capital' still need engaged customers and workers if it is to increase in value. The emergence of co-owned solidarity co-operatives suggest that the 'common bond' can go beyond the immediate economic interests of members to their shared political interest in the creation of a co-operative economy.[78]

In this essay, I have clarified differences between privatised, socialised and nationalised organisations in order to emphasise the role that co-operation and co-operatives can play in the socialisation of both commercial activity and welfare provision. Single stakeholder co-operatives (owned by producers, workers or consumers) have dominated the history of co-operative development.[79] In each case, members have expressed their co-operative identity using a range of approaches to organisation. Some have emphasised common ownership guided by communitarian management principles and the development of assets for community benefit. Alongside this are alternatives that draw from both liberal and communitarian philosophy to forge new forms that combine individual and mutual ownership to balance personal and community interests.

Using case studies, I have explored the distinctive characteristics of common ownership, joint ownership and co-ownership (hybrid) co-operative models. To take this forward, more research is needed to further clarify the context in which each has merit, and to compare the relative performance of single-stakeholder and multi-stakeholder co-operatives in different industry settings. Lastly, further debate on legal barriers to the creation of hybrid models of co-operation would be helpful. Why, for example, can some single-stakeholder co-operatives obtain tax breaks while no tax breaks exist for multi-stakeholder models? If research can further clarify the range of benefits from each type of co-operative model, so the tax systems can be adjusted to reflect the social and public benefits of each.

Endnotes

1 J. Atherton, J. Birchall, E. Mayo, and G. Simons, *Practical Tools for Defining Co-operatives* (Manchester, 2011).

2 R. Ridley-Duff and M. Bull, *Understanding Social Enterprise: Theory and Practice* (London, 2011).

3 R. Reeves, *CoCo Companies: Work, Happiness and Employee Ownership* (London, 2007).

4 A. Amin, *The Social Economy: International Perspectives on Economic Solidarity* (London, 2009).

5 P. Davies, *Introduction to Company Law (Clarendon Law Series)* (Oxford, 2002), p. 7.

6 Wikipedia, on 8 December 2009, stated that 86.9 per cent of shares were held by four shareholders: Stan Kroenke (29.9 per cent), Danny Fiszman (16.1 per cent), Nina Bracewell-Smith (15.9 per cent) and Red & White Securities (25 per cent). By 2012, 66.82 per cent were controlled by Kroenke, and 29.35 per cent by Red & White Securities. Under Company Law, Kroenke is obliged to make an offer to the shares held by Red & White Securities.

7 J. Birchall, *A Comparative Study of Co-operatives in Scotland, Finland, Sweden and Switzerland* (Glasgow, 2009).

8 R. Morrison, *We Build the Road as We Travel* (Gabriola Island, 1991).

9 D. Ellerman, 'Entrepreneurship in the Mondragon Cooperatives', *Review of Social Economy,* 42 (1984), 272–94; D. Ellerman, *The Democratic Corporation* (Beijing, 1997); R. Ridley-Duff, and C. Southcombe, 'The Social Enterprise Mark: a critical review of its conceptual dimensions', paper to *34th Institute of Small Business and Entrepreneurship Conference*, Sheffield University, 9-10 November 2011.

10 Ellerman, *The Democratic Corporation*.

11 R. H. Tawney, *The Acquisitive Society* (London, 1921); R. H. Tawney, *Equality* (London, 1931).

12 C. J. Cornforth, A. Thomas, R. G. Spear and J. M. Lewis, *Developing Successful Worker Co-ops* (London, 1988).

13 R. Hill, 'The Case of the Missing Organizations: Co-operatives and the Textbooks' *The Journal of Economic Education*, 31 (2000), 281–95.

14 Davies, *Introduction to Company Law (Clarendon Law Series).*

15 C. Cornforth 'Patterns of Cooperative Management', Economic and Industrial Democracy, 16 (1995): 487–523; Ridley-Duff and Bull, *Understanding Social Enterprise: Theory and Practice*.

16 M. Alvesson and S. Deetz, *Doing Critical Management Research* (London, 2000).

17 S. Lukes, *Power: A Radical View* (Basingstoke, 1974).

18 M. Cornforth, *Philosophy for Socialists* (London, 1959); K. Marx, *Capital III* (London, 1984).

19 P. Friere, *The Pedagogy of the Oppressed* (New York, 1970).

20 M. Cornforth, *Philosophy for Socialists*; M. Alvesson, and S. Deetz, *Doing Critical Management Research*.

21 Hill, 'The Case of the Missing Organizations: Co-operatives and the Textbooks'.

22 K. Marx, *Capital III;* J. Gray, *False Dawn: The Delusions of Global Capitalism* (London, 1998); K. Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, 2001).

23 www.bbc.co.uk/apprentice/

24 www.bbc.co.uk/dragonsden/aps/about.shtml

25 S. Lacey, *Beyond a Fair Price: The Cooperative Movement and Fair Trade* (Manchester, 2009).

26 See www.avaaz.org and www.change.org

27 P. Kalmi, 'The Disappearance of Cooperatives from Economics Textbooks', *Cambridge Journal of Economics,* 31 (2007), 625–47.

28 Birchall, *A Comparative Study of Co-operatives in Scotland, Finland, Sweden and Switzerland*; Co-operatives UK, *The UK Co-operative Economy 2011* (Manchester, 2011); United Nations, '2012 International Year of Cooperatives' *United Nations Webcast*, 31 October 2011, www.unmultimedia.org/tv/webcast/2011/10/2012-international-year-of-cooperatives-video-clip.html

29 Hill, 'The Case of the Missing Organizations: Co-operatives and the Textbooks'.

30 Co-operatives UK, *International Year of Co-operatives: Key messages, standard text, quarterly themes and talking points* (Manchester, 2011), accessed at www.uk.coop, 20 December 2011.

31 International Labour Organisation (ILO), *Promotion of Cooperatives,* Report V(I), 89th Session, (Geneva, 2001).

32 Co-operatives UK, *The UK Co-operative Economy 2011*.

33 United Nations, *Status and role of cooperatives in the light of new economic and social trends UN General Assembly*, 49th Session, A/49/213, report to the General Secretary, 1994.

34 Atherton, Birchall, Mayo, and Simons, *Practical Tools for Defining Co-operatives.*

[35] J. Retaskis, *Humanizing the Economy: Co-operatives in the Age of Capital* (Gabriola Island, 2010).

[36] R. Owen, *A New View of Society* (n.p., 1816); E. Parnell, *Co-operation: The Beautiful Idea* (n.p., 2011).

[37] Parnell, *Co-operation: The Beautiful Idea*, p. 9.

[38] R. Putnam, R. Leonardi, and R. Nannetti, *Making Democracy Work: Civic Traditions in Modern Italy* (New Jersey, 1993).

[39] Parnell, *Co-operation: The Beautiful Idea*.

[40] Owen, *A New View of Society*.

[41] Friere, *The Pedagogy of the Oppressed*, p. 106.

[42] R. J. Ridley-Duff, 'Communitarian Perspectives on Social Enterprise' *Corporate Governance: An International Review*, 15(2007), 382–92.

[43] Owen, *A New View of Society*.

[44] J. Harrison, *Robert Owen and the Owenites in Britain and America* (London, 1969).

[45] Putnam, Leonardi, and Nannetti, *Making Democracy Work: Civic Traditions in Modern Italy*; Retaskis, *Humanizing the Economy: Co-operatives in the Age of Capital*.

[46] D. Erdal, *Beyond the Corporation: Humanity Working* (London, 2011).

[47] The arrangements of the Co-operative Group are summarised at www.co-operative.coop. To find the information, navigate to Home -> Sustainability -> Delivering Value -> Modern Co-operation -> Democratic Structure.

[48] Co-operative Commission, *The Co-operative Advantage: The Report of the Co-operative Commission* (Manchester, 2001), accessed at www.uk.coop/node/8884, June 2011.

[49] W. F. Whyte and K. K. Whyte, *Making Mondragon* (New York, 1991).

[50] Co-operatives UK, *The UK Cooperative Economy 2011*.

[51] Based on field notes collected by the author during a field visit on 5-6 March 2003.

[52] British Broadcasting Corporation (BBC), *The Mondragon Experiment* (London, 1980).

[53] R. Oakeshott, *The Case for Worker Co-ops (2nd Edition)* (Basingstoke, 1991); Whyte and Whyte, *Making Mondragon.*

[54] P. Joerg, C. Loderer, and L. Roth, 'Shareholder Value Maximization: What Managers Say and What They Do', paper to the *BSI Gamma Foundation Corporate Governance Conference*, London, 4 June 2004; S. Slapnicar, A. Gregoric, and A. Rejc, 'Managerial Entrenchment and Senior Executives Compensation', paper to *6th International MCA Conference*, Edinburgh, July 12-14 2004.

[55] T. Watson, 'Motivation: that's Maslow isn't it?', *Management Learning,* 27 (1996), 447-64; J. Sloman and M. Sutcliffe, *Economics for Business* (London, 2001).

[56] Oakeshott, *The Case for Worker Co-ops (2nd Edition)*.

[57] Y. Vanek, *The General Theory of Labor-Managed Market Economies* (Ithaca, 1970).

[58] Kalmi, 'The Disappearance of Cooperatives from Economics Textbooks'.

[59] P. Davis, *Human Resource Management in Cooperatives: Theory, Process and Practice* (Geneva, 2004).

[60] Ridley-Duff and Bull, *Understanding Social Enterprise: Theory and Practice*, p. 142.

[61] R. Michels, *Political Parties: a sociological study of the oligarchical tendencies of modern democracy* (New York, 1961), p. 36.

[62] C. Pateman, *Participation and Democratic Theory* (Cambridge, 1970); Ellerman, 'Entrepreneurship in the Mondragon Cooperatives'; Ellerman, *The Democratic Corporation;* S. Turnbull, 'Stakeholder Democracy: Redesigning The Governance of Firms and Bureaucracies', *Journal of Socio-Economics*, 23 (1994), 321–60; S. Turnbull, *A New Way to Govern: Organisations and Society After Enron* (London, 2002).

[63] F. J. Forcadell, 'Democracy, cooperation and business success: The case of Mondragon Corporacion Cooperativa', *Journal of Business Ethics*, 56 (2005), 255–74.

[64] G. Major, 'The Need for NOVARS (Non-voting Value Added Sharing Renewable Shares)', *Journal of Co-operative Studies*, 31 (1998), 57–72.

[65] H. Willmott, 'Strength is ignorance; slavery is freedom: managing culture in modern organisations', *Journal of Management Studies,* 30 (1993), 515–52.

[66] Ridley-Duff and Bull, *Understanding Social Enterprise: Theory and Practice*.

[67] Ellerman, *The Democratic Corporation*.

[68] www.somerset.coop/somersetrules

[69] Ridley-Duff and Bull, *Understanding Social Enterprise: Theory and Practice*.

[70] R. J. Ridley-Duff, *Silent Revolution: Creating and Managing Social Enterprises* (Barnsley, 2002).

[71] J. Gates, *The Ownership Solution* (London, 1998).

[72] Atherton, Birchall, Mayo, and Simons, *Practical Tools for Defining Co-operatives.*

[73] J. Brown, *Cooperative Capital: A New Approach to Investment in Cooperatives and Other Forms of Social Enterprise* (Manchester, 2004); R. Simmons, 'Harnessing Social Enterprise for Local Public Services - The Case of New Leisure Trusts', *Public Policy and Administration,* 23 (2008), 278–301.

[74] Brown, *Cooperative Capital: A New Approach to Investment in Cooperatives and Other Forms of Social Enterprise*

[75] Davies, *Introduction to Company Law (Clarendon Law Series).*

[76] T. Kuhn, *The Structure of Scientific Revolutions* (Chicago, 1970).

[77] J. Schumpeter, *Capitalism, Socialism, and Democracy* (New York, 1942); Pateman, *Participation and Democratic Theory*.

[78] Parnell, *Co-operation: The Beautiful Idea.*

[79] Atherton, Birchall, Mayo, and Simons, *Practical Tools for Defining Co-operatives.*

Assessing participation in worker co-operatives: from theory to practice

Ryszard Stocki, Piotr Prokopowicz
and Sonja Novkovic

9. Assessing participation in worker co-operatives: from theory to practice

Ryszard Stocki, Piotr Prokopowicz, and Sonja Novkovic

Introduction

Whilst on the fringe of conventional managerial thought, worker participation and workplace democracy are at the very core of co-operative business. A worker co-operative's essential features, including common ownership and equal voting rights, make it a special type of participatory organisation in which the values of equity, reciprocity, and liberty matter.[1] In academic literature a co-operative organisation is normally assessed by the same efficiency standards as an investor-owned enterprise. This essay contributes to the discourse on the impact of employee participation in organisations by drawing on the theoretical and practical aspects of diagnosing and developing the 'co-operative difference'. Since the traditional approach to the theory of participation has been unable to capture the level of participation in co-operative firms, the essay makes a case for the application of a different framework for measuring co-operatives' organisational performance.[2] The essay then briefly describes the CoopIndex — a tool developed by the authors within the worker co-operative sector — which may be used to diagnose key areas of co-operative performance linked to co-operative principles and values.

Worker co-operatives

Worker co-operatives are a special case of the co-operative form of organisation because their members' needs are best defined as securing meaningful jobs. To the extent that ownership implies the right to control a business and the right to the residual income, worker co-operative members fully control business affairs and the collective earnings.[3] Members of consumer and other user co-operatives exercise their control rights 'externally' — that is, they contribute to the governance directly or indirectly, and they draw benefits based on the patronage (use) of the co-operative. By contrast, employees in worker co-operatives are 'insiders' who hold the largest stake in the success of the business and control its activities on a daily basis. Labour rights, obligations, and worker participation are inseparable from membership, unlike in other types of co-operatives.

In light of these features, labour is treated not as a cost to be minimised (as is the case in investor-owned businesses), but rather as a controller of the 'residual' earnings. Workers decide through democratic processes how to distribute the surpluses, or how to spread the losses. Member participation in worker co-operatives is high because the stakes are high, and various forms of solidarity are an integral part of co-operative life given that jobs and livelihoods are at stake.

Management practices in worker co-operatives vary. There may be shared management, via committees or rotation on various tasks; or participatory management, including designated managerial positions; or 'professional' management (participatory and inclusive in style, or not). Generally speaking the level of 'professionalisation' in management increases with the size of the co-operative, and the increased complexity of the tasks. A major challenge is to ensure that democratic governance is functioning well in a co-operative, and that management aligns the co-operative identity with business operations.

Participation, ownership and control

Employee participation in organisations takes a variety of forms, from working in teams, to profit sharing, and participating in the ownership and governance of the firm. Proponents of economic participation deem it desirable because it increases productivity, job satisfaction, and loyalty. Advocated either on humanistic grounds, as a form of power-sharing, or as a means for increased productivity, employee participation is a widespread phenomenon.[4] Ben-Ner and Jones categorise the various possibilities for employee engagement based on the degree of control rights and return rights that employees exercise in a firm.[5] Integral components of ownership rights, control, and rights to return, are formally (or legally) exercised to the full extent in worker co-operatives, whereas the degree to which they are exercised varies in other types of organisations.[6]

Worker co-operatives' organisational structure can be argued not only to bring increased productivity, employee empowerment, trust and loyalty,[7] but also to produce a more equal income distribution than the comparable investor owned firms, and a less conflict-prone industrial relations environment.[8] All of these benefits do not necessarily result from asset ownership *per se*, even though ownership may be the necessary condition. Worker co-operatives abide by the internationally recognised set of values and guiding principles and that makes them better positioned to capitalise on their unique structure. The values put into practice ensure equitable income distribution (equality, equity, solidarity), employee control (democracy, self-help, self-responsibility), trust and loyalty (honesty, openness), and socially responsible outcomes (social responsibility, caring for others).

Co-operative identity

There are usually two aspects to identity. One relates to finding out what we are: in other words identifying the specific features of an organisation or a person. Members may decide to have their co-operative enter a particular industry for a number of reasons. On the demand side, co-operatives may start as an employee buyout, or they may enter due to failures of the private sector or government to meet particular economic or social needs.[9] The supply side explanation is that co-operative members want to organise in a different way because they value economic liberty. This people-centred social and solidarity economy approach has a long history and presence in market economies.[10]

One might argue that the extent to which co-operatives exercise their values and principles in carrying out their operations depends in part on their founding purpose, but it may also depend on the quality of their management and leadership and on member homogeneity or social cohesion. In successful co-operatives, ethical co-operative values and principles serve as guidelines in their management and governance practices; they also influence policies and processes, from the distribution of earnings, to the hiring and treatment of employees, education, social interactions in the organisation, relations with other stakeholders, and so on. All these features of a co-operative may be summed up in the phrase 'co-operatives are partnerships of persons'.

There is, however, another aspect to identity: it relates to difference, in other words clearly stating what we are not. There will be features of other businesses with which a co-operative does not identify. The co-operative is not a firm in the sense defined by economists as an 'institution that buys or hires factors of production and organises them to produce and sell goods and services'.[11] This element of the irreducibility of the person to the factor of production has deep consequences for co-operative effectiveness, competitiveness and co-operative diagnosis. This is the reason why we put so much stress on what people think about their co-operative.

Co-operative effectiveness

The effectiveness of co-operatives is about meeting their members' needs as a viable business. Co-operative identity adds the ethical dimension built into the expectations of members, employees, customers, and other stakeholders. It is therefore important for co-operatives to maintain that trust and uphold loyalty of their members and stakeholders as a business strategy and in order to fulfil their mandate.[12] It is also important that co-operatives demonstrate their difference and remain competitive based on their unique business model.

Managers of co-operatives are often hired for their business skills, whilst the preservation of the co-op's social function (its associational character) is left to the board of directors governing the co-operative. Coupled with growth in size and membership and a loss of organisational memory, this may lead to organisational isomorphism — that is, co-ops becoming similar to investor owned companies as managers apply techniques and measure performance as they would in such businesses. Besides this, in competitive markets, co-operatives need to strengthen their brand as ethical businesses and use the co-operative identity to their advantage.[13] The fourth reason to develop tools to measure performance based on the co-op identity we cite above is, arguably, the most important one. The stronger the members' involvement in decision-making, the more likely it becomes that members will exhibit a high level of 'buy-in' or psychological ownership. The *de jure* ownership of assets by a group does not necessarily imply the perception of the *de facto* ownership as well.[14] In creating the beneficial ownership culture, clear communication and mutual understanding of the views of others is critical for success.

Co-operative competitiveness

It is not enough to simply define a co-operative as a viable business in an era of the 'red ocean of bloody competition'.[15] To start change within an organisation and properly assess a co-operative, we also need to understand its strategic stance that has its roots in its identity. Standard firms employ 'the talent', 'the competence', but not the 'whole person'. They are able to compete in time because one supplier can be substituted with another, and one employee can be substituted by a new hire. This process of work alienation, to put it in Marx's terms, is so massive that many consider it as natural, a given in a competitive economy. Klein has collected many examples of 'disaster capitalism' where shock, rapid changes are introduced at the expense of social structures and personal dignity on a national level.[16]

Territorial limitation is the second specificity of co-operatives, especially worker co-operatives. Defining the market is the first goal of any business strategist. In 1954 Drucker wrote that if you were a small company, to survive you had to become large. By contrast, strategies for the twenty-first century — spinoffs, networks and staying local — answer market growth differently from the multinationals. Co-operative values and principles influence the company decisions about space and size. Such 'global' co-operatives as Mondragón Corporation, for example, are in the process of learning how to operate internationally without losing their identity. Both the time and space features of co-operatives are rooted in their 'personal' nature. This means that their competitive advantage may only be appreciated and used if the measurement methodology and metrics reflect that personal nature as well.

The tools and indicators for assessment of co-operative business performance

Co-operatives use a number of tools, methods and indicators to assess their performance. Some of these are industry specific, whilst others relate to the particular organisational dimensions; all co-ops use financial indicators as an accounting requirement. McNamara details social audits as tools used by worker co-operatives to build their social infrastructure, and the WorldBlu democratic workplace scorecard to assess the democratic functioning.[17] Both of these tools are general and not developed specifically for co-operatives. The advantage of this approach is that co-operatives compete on equal footing with other types of businesses. A disadvantage is that the tools do not capture the specificities of the co-operative business very well. Alternatively, some tools measure co-operative life and governance based on the principles and values of co-operation. These and other tools, while valuable for specific purposes, have been derived from the traditional point of view, where the researcher or diagnostician imposes their view about best practices, or what constitutes a 'good co-operative'.

There has been a shift in recent years toward more participative ways of building the tools to assess performance of democratic organisations. The CoopIndex described in this essay is one of these. This tool helps to build and maintain the co-operative identity as a strategic advantage for co-operative firms and assists co-ops in measuring their performance based on their identity.

Participative research methodology

Reflexive and positive modes of inquiry

When addressing research problems, social scientists are never exempt from involvement in the very phenomena they are studying.[18] Such a relationship between the researcher and the field is often considered to be a predicament which might be overcome by adopting either of two possible strategies. One is to limit personal involvement in the world which a social scientist studies, whilst the other is to turn such personal involvement to an advantage. The former is called the positivist approach; the latter is the reflexive or post-positivist approach.[19] The positivist approach to social sciences employs the idealistic (or 'objective') understanding of social phenomena and assumes that they can be studied using quantitative methods. Positive science postulates the disposition of detachment, a complete distancing of observer from the object of inquiry. Katz provides four distinctive features of positive social science: restriction of reactivity, reliability, replicability and representativeness.[20] According to positivists, only when social scientists adapt these tenets in their research practice can they claim to practice real science.[21]

The reflexive approach, on the other hand, stems from a simple and widely observed fact that a social scientist's involvement is an almost unavoidable part of every social inquiry.[22] This is why Burawoy, following Polanyi, rejects the positivist worldview and embraces the study of 'cognitive maps through which we apprehend the world'. This reflective approach to social science embraces engagement as the proper way of knowledge-creation. In reflexive inquiry, knowledge is attained by talking (virtually or directly) to participants, making the order of conclusion abductive rather than deductive.[23] However, what is considered to be a virtue of the qualitative approach — the interactions between the researchers and the subject they study — is unfortunately very often a cause for accusing reflective science of overtly political involvement. What is the purpose of a reflexive mode of inquiry then?

There are two main schools of thought as far as the goal of research is concerned. The first, practical-hermeneutic tradition, identified with Weber, is generally aimed at understanding the fundamental facts about the specificity of human condition, while the emancipatory orientation is deeply concerned with the utility of knowledge production, and encourages scientists to involve themselves not only on the level of inquiry, but also on the level of action. Reflexive scientists have often been accused of using the mindset of 'understanding' for identifying the meanings the research subjects hold without providing them with proper tools for self-expression, involvement and emancipation. It has been argued that all too often reflexive or qualitative research is more 'about people' than 'with people', thus denying participants the possibility to offer different accounts of their actions than the ones reconstructed by reflexive researchers. This is why methods such as action research and co-operative inquiry have been introduced to the field of social sciences and management studies.

Participation, co-operation and research

Action research, which is strongly argued for by Kurt Lewin, is based on repeating cycles of planning, action, observation and reflection in order to change the reality of research participants for the better. In more radical forms, it also engages total participation and co-operation of the stakeholders. Collaboration of persons involved in the action research project is the hallmark of every emancipatory or community-based action research.[24] However, action research is a practical effort, usually at odds with theory-building and lacks explicit anthropological and epistemological underpinnings. In participative action research the 'animator' comes from an intellectually privileged setting which may create an effect of 'separateness' from the participants.[25] Co-operative inquiry, in many respects, is more radical than action research. Of course, it shares its democratic research process, but it goes the extra mile to establish a process that is fully participative. Contrary to traditional qualitative methods or various forms of action research, co-inquirers are always fully involved in decisions about every aspect of the research, including the goal, the focus and the content of the inquiry.

Co-operative inquiry is a participative form of inquiry in which all participants are both co-researchers and co-subjects.[26] It addresses the limitations of both positivist and interpretative paradigms by providing a connection between the research process and the concerns and experiences of research participants. By involving people as active agents, co-operative inquiry produces four different kinds of knowing: experiential knowing (through empathy and resonance, impossible to express verbally); presentational knowing (through story, drawing, sculpture, movement, dance and other types of expression); propositional knowing (through ideas, theories, and data); and practical knowing (through skill and competence). The inclusion of these four types of knowing is the core of co-operative inquiry, providing a unique mode of connecting research goals and personal objectives of the participants. More importantly, however, the radically participative character of co-operative inquiry makes it a well-suited method to study the nature of worker co-operatives, with their dual character, value-based performance criteria and transformative goals.

CoopIndex

CoopIndex is a research methodology created in a collaborative process by co-operative members, co-operative consultants, and researchers of the co-operative movement.[27] CoopIndex was developed in the co-operative inquiry framework leading to the development of a practical diagnostic tool that serves both the economic and social goals of co-operatives. The purpose of the tool is to assess the health of the co-operative based on perceptions of its members and employees about the extent to which the values and principles of co-operation are operational:

> … within autonomous organisations such as worker co-ops in which people initiate their personal and collective choices, the organisation will clearly be a reflection of their members' personal capacities, knowledge, goals and values which may or may not coincide with the formally articulated Co-op Principles and Values, or the requirements for total participation.[28]

The CoopIndex diagnostic tool includes the survey of co-op members and employees, key informant interviews, and an assessment of the documentation. The critical component in its application relies on the insiders' perceptions captured by their survey responses.

Development and use of the CoopIndex diagnostic tool

How to diagnose co-operatives

The 'how to' of CoopIndex diagnosis results from the 'why'. We therefore turn to the philosophy behind the diagnosis first. Many detailed aspects and metrics of the tool, as well as the logic of the diagnostic process are different from the mainstream approach to diagnosing organisations.[29] Our approach to diagnosis is rooted not only in Heron's co-operative inquiry, but also in DiMaggio and Powell's guidelines on how to escape from organisational isomorphism, Erdal's search for multiple bottom lines, and Stocki's attempt to find repeated bottom lines by diagnosing organisations through diagnosing individuals.[30] We shall now discuss these specific approaches and point out how they are reflected in the construction of the tool and diagnostic procedure.

Diagnosing organisations

Any organisation engaging human beings has to take into account their dignity. This might be thought of as the very essence of each person. If we look at other people in an organisation as if they were not persons, but for instance 'human resources', 'human capital', or 'intellectual capital', we can potentially deprive them of their most important feature or essence. This is particularly true about investor-owned companies which are built on the basis of capital and in which people are often treated as a means of achieving a higher return on investment, or as a cost to the organisation.

The situation is rather different in co-operatives which, by definition, are not capital focused but rather partnerships between persons. The research to produce the diagnosis must therefore be conducted in a manner that recognises human dignity. This can be accomplished if the co-operative members are not solely 'objects', but also the 'subjects' of the inquiry:

> Every human subject in a piece of social science research has a right to participate actively, directly or through representation, in decisions about the research design. This is so that each subject can have the opportunity to identify, own and manifest his or her personal values in and through the design, can therefore be present as a fully human person in the study; and can avoid being misrepresented by the researcher's implicit value system.[31]

In other words in applying co-operative inquiry we are focused not only on diagnosing a specific person-centred system, but also we conduct the inquiry in a participative way.

Bottom lines

Investor-owned companies have indeed 'imposed their value system' on co-operatives through competition, but also through the predominance of institutions in market economies that are unfamiliar with the co-operative business form.[32] All companies regardless of their goals and inherent values are typically diagnosed on the basis of profit (a single bottom line) leading to organisational isomorphism, because what is measured usually becomes a point of attention.[33] Kaplan and Norton write 'measurement is a powerful motivator. Managers and employees strive to perform well on whatever measures get selected, particularly if the measures are tied to an incentive compensation plan'.[34] For this very reason measurement and diagnosis based on the values of co-operation are important for co-operatives to avoid becoming profit focused and losing their co-operative identity.

Some of the first attempts to overcome the bottom line idea were rooted in the studies of corporate social responsibility. The major metric, in other words profit, or the financial performance area, was supplemented with ethics and ecology. This approach sometimes called 3E or 3P (profit, people, planet) or triple bottom-line was an attempt to curb the drive for profit and balance it with long term effects on the stakeholders. It produced the concept of sustainable development, and the notion of multiple bottom lines in the co-operative literature.[35]

Erdal has proposed a much more radical approach to multiple bottom lines.[36] He undertook to compare co-operative and non-cooperative communities on quality of life criteria related to such spheres of life as crime (victimization, policing, confidence, feeling of security, domestic violence), education (level attained, age leaving school, truancy, expected truancy, post-school training, perceived importance of education), health (physical health, emotional health), social environment (perceived gap between rich and poor, helpfulness of authorities, supportiveness of social networks), social participation (membership of clubs). The most important feature of Erdal's approach is his escape from the anthropology of *homo oeconomicus* by applying a view of the person as a whole where the economic metrics meet the quality of life, development, health and social dimension. Erdal accounts for both temporal and territorial specificity of co-operatives discussed above, but even in Erdal's multiple bottom lines approach, the metrics merge and the individual person is eventually lost. Stocki proposes a model of repeated measures of individuals.[37] Even though the model has advantages, it still reflected the researchers' mental models not those of the subjects; this is a phenomenon Heron warned us about.

A different kind of tool is evidently required. We need a way to capture as many bottom lines as there are persons in the organisation. CoopIndex does that since it is a survey-based tool. Moreover, companies are encouraged to repeat the measurement annually.

The diagnosing process

The CoopIndex tool and its associated questionnaire are currently in use in Canada, the US, and Finland. They are also being considered for use in Spain and elsewhere. There are various options for using the tool and two of these are outlined below. For more detailed information readers are encouraged to consult the website: http://coop.oindex.eu.

Option 1: Starting from (almost) nothing

We propose that the diagnostic process first define the general health of the co-operative. We assume that a healthy organisation is one that everyone would like to work for – this is the 'dream' organisation. However, what is a dream for non-member employees may not be a dream for members. If the differences are too big there may be a necessity to build two versions of the ideal image.

Step 1 Oval mapping

The image of an ideal co-operative can be created with a group of up to twelve people by means of oval mapping. The detailed description of the process is described in Bryson, Ackermann, Eden, and Finn.[38] Generally we gather a group of people and ask them to sit in front of a wall covered with large sheets of paper and give each of them a pile of Post-it notes to write down and post features of the ideal co-op. The process may take up to two hours and we usually end up with about two hundred features. Next, the group with the assistance of the facilitator edits the map. Cards are sorted into natural subgroups, those which repeat are thrown away, the ambiguous ones are explained by their authors, and finally the controversial ones are discussed and consensus is reached. We have performed numerous such maps with different groups and there were never serious disagreements within the group, although disagreements did appear when the results were presented to others who had not participated in the exercise. The 'outsiders' occasionally protested to some statements and more discussion was needed then to explain their origin. Generally people do agree about what their organisations should be like. An additional step is required for co-operatives, namely the interpretation of various features of the ideal co-op in the context of the co-operative principles and values. Some features may be assumed, and therefore not explicitly stated.[39]

Step 2 Building the questionnaire

The next step is to change the Post-its into descriptive statements. For instance someone wrote 'Being better' on a Post-it. This phrase has to be formulated as a descriptive statement: 'By working in this co-operative I am becoming a better person.' When the statements are grouped into categories and supplied with a scale, they are ready to be tested. We propose a seven point scale:

Strongly disagree, Disagree, Somewhat disagree, Neither agree or disagree, Somewhat agree, Agree, Strongly agree

with three additional choices:

Don't know, Don't understand. Irrelevant.

The additional choices allow limited participation in critical evaluation of each answer even by those who did not participate in the creation of the tool.

Step 3 Pilot study – adding the scales

A pilot study is typically administered to test the tool. We may ask a group of people to answer the questions and then sit with them and discuss what they think of each question. Some improvements to the questions could be introduced at this stage.

Step 4 Conducting the diagnosis

In most organisations it is possible to make the questionnaire accessible through services such as Limesurvey. It is also possible to prepare a form in OpenOffice or other editing free software and send it by email, but if the employees and co-op members do not have access to the Internet a traditional paper form can be used. In either case all the data should be written to a spreadsheet or statistical software.

Step 5 Calculating the results

The calculation of results is carried out in a particular way in our approach. In most diagnostic tools the results and metrics are calculated by referring to mean values. This procedure is borrowed from social sciences where inferences about large populations are made on the basis of small samples. The problem here is that each co-operative is a small specific community that already constitutes a population. Therefore, instead of averages, we prefer to calculate frequencies of the responses. This approach has a practical implication; we know how many people hold a given view of a given aspect of co-op's functioning. It also means we collect an enormous amount of data.[40] There are certainly questions that are more interesting than others for detailed results, but also different people will have a different 'favourite' set. One CEO we know starts reading the report with the question: 'By working in this co-operative I am becoming a better person.' He claims that if this question is answered positively the main measure of functioning of his company is positive and he has nothing to worry about even if some other category turns out negative.

In order to be able to interpret the data we need to calculate some metrics. To do this, we have to simplify the seven-point scale and transform it into a nominal scale. The CoopIndex software includes a choice question about whether we want to use more or less strict criteria in nominalisation of the scale results.

Step 6 Calculating the co-operative metrics

Profit as a single bottom line measure is so attractive not only because it reflects what all people want, but also, or maybe most of all for its simplicity. Co-operatives seem to agree that return on investment is not what they are about, so we need a profit counterpart as a measure of performance, a simple number that would reflect the functioning of a co-operative. We used quite a complex procedure to arrive at such a number. We started by asking several experienced consultants and co-op developers which statements in the questionnaire they consider the most important for the functioning of any coop. We then identified statements they all agreed on, and for this set of questions calculated the percentage of positive answers (strongly agree and agree) of all respondents.

Step 7 Reporting, discussion and action plan

Ideally the results should be presented as a report and a presentation to discuss and draw an action plan. There are very few organisations of any kind which would be interested in the diagnosis as an end. In most cases the tool will be used by consultants/developers who will offer recommendations for concrete action to improve the co-operative's functioning.

Option 2: Starting with ready to use questionnaire

A co-operative with business literate members and employees may be willing to apply a CoopIndex tool that is ready to use. Such a tool was developed in the Atlantic Canada for worker co-operatives and is made available for use by the co-op sector. The list of questions with the division to subscales is available on request from the authors, and more detail about the process can be found on its web site http://www.coop.oindex.eu. To make the use of the tool easier, and to enable access to the diagnosis to small co-operatives unable to afford expensive consulting services, the tool has been supplied with automatic report-generating software.

Step 1 Decision to use CoopIndex

Co-operatives as democratic institutions ought to use the democratic process to initiate the use of the CoopIndex. All members and employees should be on board with it, and both a sample of a report and the full version of the tool should be available for anyone interested in details of the diagnosis. The Board of directors should select a reliable person to be responsible for coordinating the diagnostic process and contacting the CoopIndex team.[41]

Depending on availability of computers and time, the coordinator in consultation with others has to answer questions such as:

- What form of the survey (on-line or paper) will be used?
- Where and in what period of time will the employees answer the questions?
- Will the respondents be allowed to re-enter the questionnaire?
- Will the invitation be sent by an outsider (a consultant, or other) or internally?

- What kinds of comparisons within the co-operative might be useful – different locations, positions in the co-op, gender…(demographic data)?
- Would the co-op conduct just the survey, or proceed with interviews and examination of the available documentation (and who will carry out those elements of the diagnosis)?

Step 2 Collecting the results

The results are usually collected in a period of one to two weeks. The easiest way is to collect results with software like surveymonkey.com or limesurvey.org. If collecting paper results is necessary, a process that ensures anonymity should be employed. Once the responses are collected, and data entered into a specifically formatted spreadsheet, the results are automatically analyzed by the software developed at St Mary's University.

Step 3 Analyzing the results – report and presentation

The report consists of several parts with different levels of generality. The reason is that for some purposes results in the form of one index are enough, while for others a more detailed report may be required. Here is a quick overview of the content of a sample report, as illustrated in the figures below:

Figure 5 – General content of the CoopIndex Report – from detailed to general

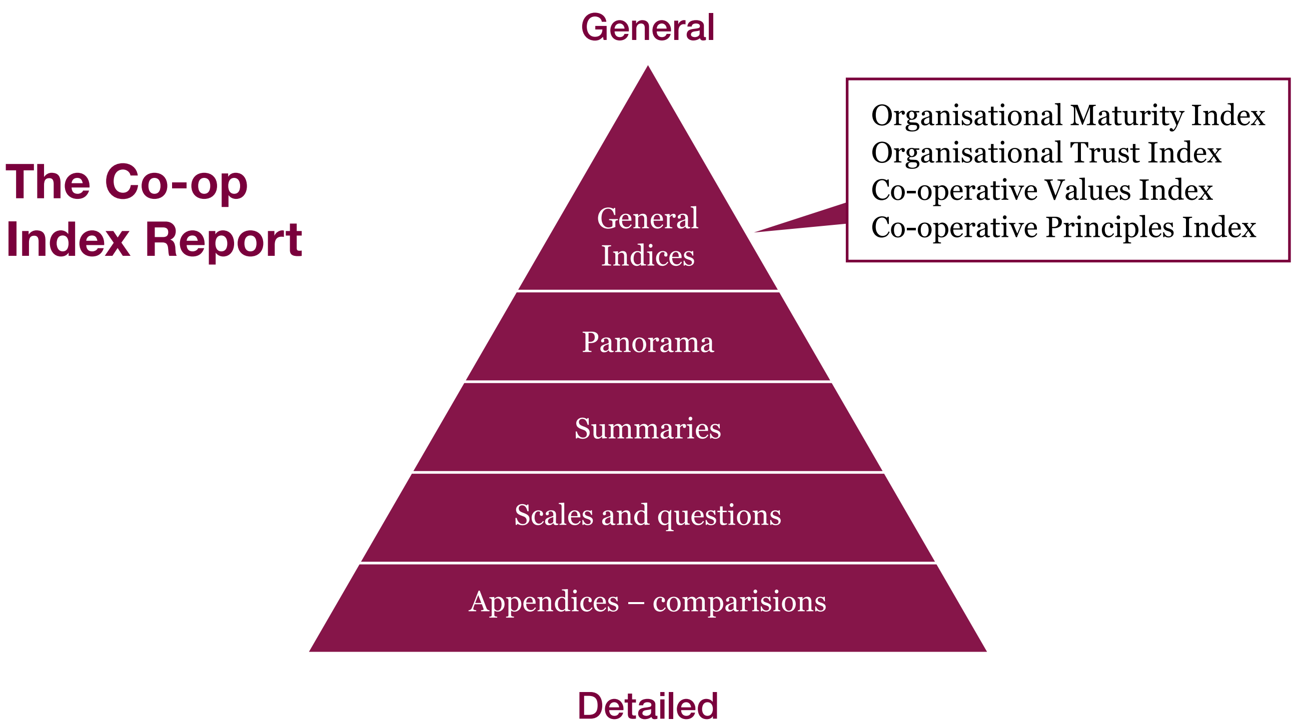
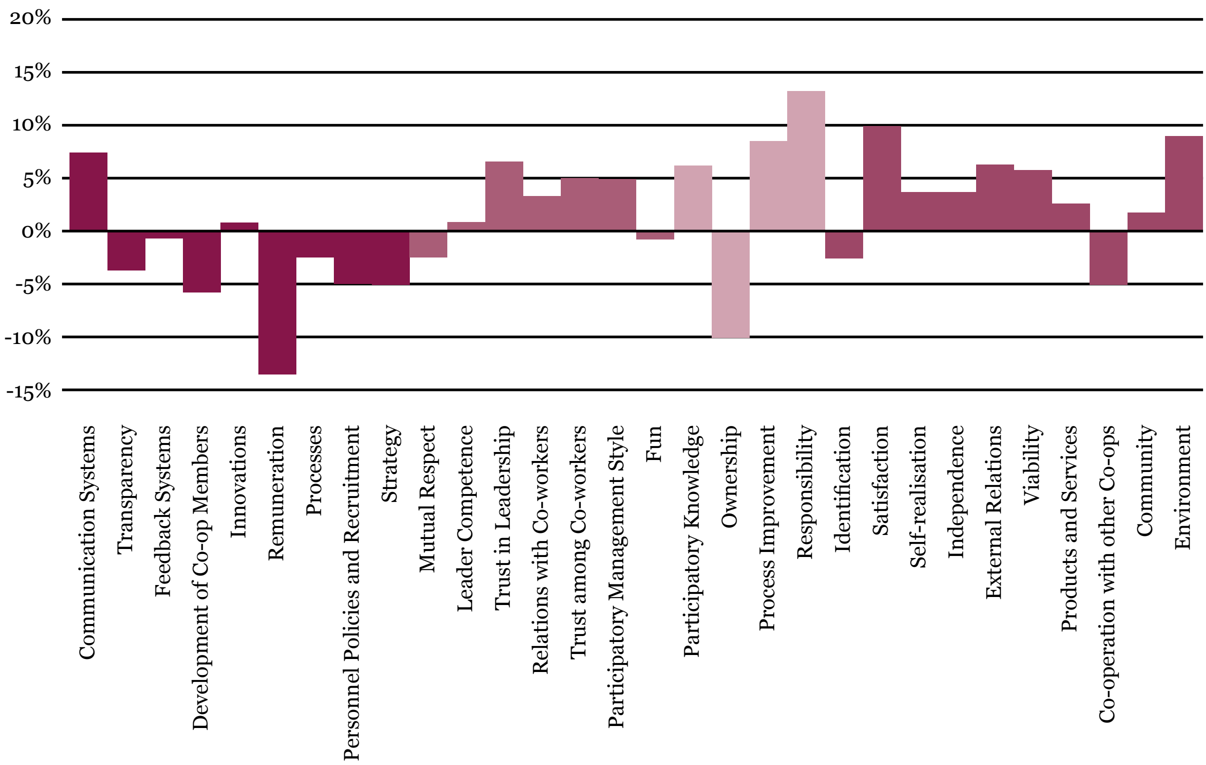


Figure 6 – Dimensional summary of a sample CoopIndex Report



Step 4 Discussion of the results and action plan

In co-operative inquiry it is particularly important to view the results in the context of practice. Therefore, the results have to be discussed by participants and conclusions drawn how to improve the co-operative. Such conclusions are important for the next stage of the change process. An action plan should be drawn up providing concrete objectives for individuals and groups. The whole process would ideally be repeated in approximately one year's time to assess changes in organisational maturity.

Opening a dialogue about the state of the co-op, and areas for improvement

The CoopIndex results often serve as a point of reference for a dialogue between members of a co-operative. In some of the co-ops that have employed the CoopIndex in their diagnostic processes, the results are used by all employees on a daily basis. The common language provided by CoopIndex is one of the most important the tool offers to the development of co-operatives.

Organisations are in constant flux. However, the results of a CoopIndex report are very useful for monitoring that instability and comparing it against the co-operative goals, industry standards and company objectives. The possibility of comparisons across time enables co-operatives taking part in the process to constantly observe their progress and continuously improve both commitment to co-operative values and business performance.

Co-operatives taking part in the CoopIndex diagnostic process are encouraged to share their results in anonymous format with the community of practitioners. One cannot emphasise enough the high potential of benchmarking for the development of every business. The possibility of comparing one's organisation against the leaders of the co-operative sector provides members with a better understanding of not only their own firm, but also its position in comparison with other co-operatives. This, in consequence, provides an impulse for growth and continuous improvement of an organisation.

Finally, and most importantly, by participating in the diagnostic process, members of the organisation gain an insight into even the most complex aspects of the organisation. By taking part in the survey and interviews, co-operative members and employees learn about the important aspects of managing their organisation. In evaluating the report and being a part of the improvement process they develop the knowledge and skills to effectively manage and lead the co-operative.

Conclusions

The essential characteristics of worker co-operatives make it virtually impossible to measure their performance according to the similar standards as traditional, investor-owned companies. Since they are subject to numerous pressures, both from the market and from the value-oriented nature of the organisation, worker co-operatives are encouraged to use innovative tools for capturing the co-operative difference in order to embrace the duality of their goals and maintain a competitive advantage.

The Total Participation framework, with its focus on a dignity-orientated person-based view of individuals in an organisation, paired with the methodology of co-operative inquiry offers a diagnostic approach that establishes clear standards for organisational health and measures co-operative performance against these standards. The CoopIndex tool described in this essay provides a transformative approach to co-operative performance. Linking organisational effectiveness to co-operative principles and values, it enables worker co-operative to balance their social and economic goals without compromising them in research, diagnosis and intervention.

Future developments of the diagnostic tool should turn to other types of co-operatives. The process of partner engagement is the same as described for worker-co-operatives, but a key difference of course is the type of diagnosis in which co-operatives may be interested. In other types of co-op, with the exception of producer co-operatives, members are typically 'outsiders', making use of the co-op rather than engaging for work. In consumer co-ops it is more difficult to define 'total participation' in the co-operative. Relationships with members and employees need to be considered. The question then is what would be diagnosed – is it member engagement with the co-operative, or employee satisfaction, or both? Natural development of the tool should equip co-op developers with intervention methods based on the same philosophy of recognising human dignity and freedom.

1 S. Zamagni and V. Zamagni, *Cooperative Enterprise: Facing the Challenge of Globalization* (Northampton, 2010).

2 R. Stocki, P. Prokopowicz, and G. Żmuda, *Pełna partycypacja w zarządzaniu: Tajemnica sukcesu największych eksperymentów menedzerskich świata*.(Eng. Total participation management: Mystery of the success of the greatest management experiments in the world) (Cracow, 2008); R. Stocki, 'Presentation at the CoopIndex Workshop for Worker Co-operatives' (Halifax, 2008); P. Prokopowicz, R. Stocki, and G. Zmuda, 'Cognitive Theory of Total Participation Management' *Selected Proceedings of the IAREP/SABE 2008 Conference*, LUISS, (Rome, 2008).

3 A. Ben-Ner and D. C. Jones, 'Employee Participation, Ownership, and Productivity: A Theoretical Framework', *Industrial Relations*, 34 (1995), 532–54.

4 F. Heller, E. Pusic, G. Strauss, and B. Wilpert, *Organisational Participation: Myth and Reality* (Oxford, 1998).

5 Ben-Ner and Jones, 'Employee Participation'.

6 Ben-Ner and Jones, 'Employee Participation', p. 534.

7 Heller et al., *Organisational Participation*; Ben-Ner and Jones, 'Employee Participation'.

8 W. Bartlett, J. Cable, S. Estrin, D. C. Jones, and S. C. Smith, 'Labour-Managed Cooperatives and Private Firms in North Central Italy: An Empirical Comparison', *Industrial and Labour Relations Review*, 46 (1992), 103–18.

9 Zamagni and Zamagni, *Cooperative Enterprise*.

[10] A. Amin, *The Social Economy. International Perspectives on Economic Solidarity* (London, 2009); A. Noya, and E. Clarence (eds), *The Social Economy: Building Inclusive Economies* (Paris, 2007).

[11] M. Parkin, *Microeconomics* (Boston, 1990).

[12] For a consideration of various motivations of co-operatives, see C. Borzaga, S. Depedri, and E. Tortia, 'Organisational Variety in Market Economies and the Role of Co-operative and Social Enterprises: A Plea for Economic Pluralism', *Journal of Co-operative Studies*, 44 (2011), 19–30.

[13] J. McNamara, *Worker Co-operatives and Employment Law in Canada* (Nova Scotia, 2009).

[14] Psychological ownership is related to matching the expectations to the ownership experience. See J. Pierce, and C. Furo, 'Employee Ownership: Implications for Management', *Organisational Dynamics*, 18 (1990), 32–43.

[15] W. C. Kim and R. Mauborgne, *Blue Ocean Strategy: How to Create Market Space and Make the Competition Irrelevant* (Boston, 2005).

[16] N. Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (Toronto, 2007).

[17] McNamara, *Worker Co-operatives and Employment Law in Canada*.

[18] P. Prasad, *Crafting Qualitative Research. Working in the Postpositivist Traditions* (New York, 2005); M. Burawoy, *The Extended Case Method. Four Countries, Four Decades, Four Great Transformations, and One Theoretical Tradition* (Los Angeles, 2009).

[19] Prasad, *Crafting Qualitative Research*; Burawoy, *The Extended Case Method*.

[20] Burawoy, *The Extended Case Method*, pp. 31–2.

[21] Prasad, *Crafting Qualitative Research*.

[22] Burawoy, *The Extended Case Method*.

[23] Burawoy, *The Extended Case Method*; C. S. Peirce, *Pragmatism: The Logic of Abduction* (n. p., 1903).

[24] Emancipatory research is concerned with the utility of knowledge production, and encourages scientists to involve not only on the level of inquiry, but also on the level of action. See J. Heron, *Co-operative Inquiry* (London, 1996).

[25] Heron, *Co-operative Inquiry*.

[26] P. Reason, 'Integrating Action and Reflection Through Co-operative Inquiry', *Management Learning*, 30 (1999), 207–26.

[27] The process of its development is described in P. Hough, and S. Novkovic, 'Measuring Participation in Worker Co-operatives' in S. Novkovic and L. Brown (eds), *Atlantic Canada's Social Economy: Communities, Economies, and Solidarity* (2011) Forthcoming.

[28] Hough and Novkovic, 'Measuring Participation'.

[29] This approach can be termed 'the applied critical management studies'; R. Stocki, 'Personalistic Psychology of Management. An Option for Critical Management Studies', *Nowy Sacz Academic Review*, 5 (2009), 4–10.

[30] P. J. DiMaggio and W. W. Powell, 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields', *American Sociological Review*, 48 (1983), 147–60; D. Erdal, 'Is Employee Ownership Better for Your Health?', *Owners at work*, 13 (2001) 1-3; R. Stocki, *Patologie organizacyjne – diagnoza i interwencja* (Eng. *Organisational pathologies: Diagnosis and intervention*) (Cracow, 2005).

[31] Heron, *Co-operative inquiry*, p. 17.

[32] Italy, Spain and France constitute a notable difference.

[33] DiMaggio and Powell, 'The Iron Cage Revisited'.

[34] R. S. Kaplan and D. P. Norton, *Strategy Maps. Converting Intangible Assets into Tangible Outcomes* (Boston, 2004), p. 12.

[35] United Nations, 'Report of the World Commission on Environment and Development', *General Assembly Resolution* 42/187, 11 December 1987; R. Stivers, *The Sustainable Society: Ethics and Economic Growth* (Philadelphia, 1976).

[36] Erdal, 'Is Employee Ownership Better for Your Health?'.

[37] Stocki, *Patologie organizacyjne – diagnoza i interwencja*.

[38] J. M. Bryson, F. Ackermann, C. Eden, and C. B. Finn, *Visible Thinking: Unlocking CaUSl Mapping for Practical Business Results* (Chichester, 2004).

[39] For example, in one exercise the group omitted questions about autonomy and independence. This co-operative feature was taken for granted by the participants.

[40] If there are 100 employees in our co-op, and the questionnaire has 100 questions answered on a 7 point scale, we arrive at 70 000 numbers (100x100x7).

[41] See the web site for details: http://coop.oindex.eu.

co+operative development scotland

SCOTMID co-operative

The co-operative membership

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Knowledge Transfer Partnerships

The Scottish Government Riaghaltas na h-Alba

This timely collection of essays draws together the research of fourteen international scholars to examine how the co-operative business model functions in practice within diverse cultural and social contexts. It includes case studies of co-operatives and credit unions operating in different national settings across Britain and Ireland, continental Europe, Australasia and the Americas. Together the essays show how the concept of democratic co-operation, applied to enterprise in commercial markets, developed into the basis of a truly global movement.

The Co-operative Model in Practice will be of interest to students and scholars in economics, business studies, sustainable development, history, and organisational theory and behaviour. It also serves as a valuable resource for policy-makers seeking alternative models for organising enterprise and society.