

Co-operative Identity

Peter Somerville

The purpose of this paper is to reflect on the concept of co-operative identity. Co-operatives are claimed to have distinct values and institutional forms, different from private corporations, public bodies and 'non-profits' or charities. Essentially, however, co-operatives are member-owned, democratically controlled enterprises. Over the years, it appears that they tend to lose their distinct identity (the so-called 'degeneration thesis'). This paper looks at why this occurs and how the distinct identity of co-operatives can be sustained. It points to the growth, in recent years, of community organisations that do not call themselves co-operatives but nevertheless can be argued to exhibit a co-operative identity. It concludes by suggesting that the experience of these 'community co-operatives' may contain lessons for the co-operative movement.

Co-operative institutions

The identity of co-operatives can be characterised in terms of either their **institutional form** or their **values**. Co-operatives are said to be organisations of a distinct institutional type, and values can supply a distinctive content to the co-operative institutional form. Values can provide substance for institutions and institutions can support and sustain values.

The International Co-operative Alliance (ICA), in its Statement on the Co-operative Identity, states:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs, and aspirations through a jointly owned and democratically controlled enterprise.

(MacPherson, 1995, cited in ICA, 2006)

First, a co-operative is an **enterprise**, ie a trading organisation that produces economic value such as goods and services. The ICA definition, however, is not sufficient to distinguish co-operatives from other kinds of enterprise, because most capitalist enterprises, such as partnerships and plcs, are owned jointly (by the partners or by the shareholders) and controlled democratically (eg through annual shareholder meetings).

A particular difficulty arises in relation to the ICA's (2006) first principle of voluntary and open membership, according to which "co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination". Apart from the argument that this has potentially discriminatory implications, because some people will be more able than

others to use their services, the principle would appear to suggest that membership of a co-operative should be open to all its potential stakeholders, whereas in reality most co-operatives limit their membership to particular kinds of stakeholder (eg workers or consumers).

Attempts have been made to clarify the meaning of "jointly owned". It has been argued, for example, that it means that the enterprise is wholly and exclusively owned by its members, so that its shares "cannot be bought and sold by the general public" (Davidmann, 1996a: 8). This is problematic, however, for two reasons: first, private companies such as family businesses and business partnerships, which do not claim to be co-operatives, nevertheless do not issue shares that can be bought and sold by the general public; and second, some co-operatives have actually issued such shares.¹

A more widely accepted view is that co-operatives are different from private enterprises insofar as they are controlled or **managed** by their members on the basis of one-member-one-vote (OMOV). This is the meaning enshrined in the ICA's (2006) second principle of democratic member control, whereby "co-operatives are democratic organisations controlled by their members who actively participate in setting their policies and making decisions".

Co-operatives, however, can be owned by their members in different ways: either by the membership as a whole ("common ownership") with each individual member having only a nominal stake in the enterprise², though they may actually contribute substantially to it in terms of their time, labour or money; or by members individually and separately, in proportion to the input of their time, money, labour, etc ("individual ownership").

Common ownership seems more easily

compatible with OMOV governance, since each member has the same share. It could be argued, however, that, since their ownership stake is only nominal, they should have some other kind of interest in the enterprise (eg as workers or consumers or otherwise materially affected by the activity of the enterprise) if they are to be entitled to participate in important decisions about its future. Arguably also, if common ownership is understood here to be a public good, the principle of optimal ownership comes into play, ie the extent of a person's entitlement should correspond to the value to them of the enterprise's outcomes (Besley and Ghatak, 2001; Albert, 2003: 40 – see also Somerville, 2005).

In the case of multi-stakeholder co-operatives in particular, where one category of stakeholder (such as workers) is more deeply affected by the outcomes of the enterprise than another (such as consumers), it would follow that the votes of the former should count for more than the votes of the latter. This involves a modification of the principle of OMOV to fit the context of an institution with different categories of membership. According to Reed and Stanley (2005), it is indeed possible to devise a governance structure for multi-stakeholder co-operatives in which the interests of employees, consumers and the local community are effectively represented in the management of the enterprise. In Quebec, for example, each category of stakeholder (eg workers, customers/consumers/users and investors/supporters) is separately represented on the board of the enterprise, with different limits placed on the extent of representation for each category (Girard and Langlois, 2006).

Individual ownership brings its own problems. It could be argued, for example, that those who make a greater contribution (of labour, money or assets) should be allowed to receive correspondingly greater benefit (as happens in both private and public companies) – this is the co-operative principle of proportionality (Barton, 1989). The principle of OMOV, however, could allow those contributing less to contradict this principle by deciding to have a more equal distribution. Defending the principle of proportionality against this can lead to the restriction and even abandonment of OMOV, resulting in a loss of the co-operative's identity (see discussion of the degeneration thesis below). It appears, therefore, that co-operative identity under a system of individual ownership

may be easier to sustain where the contribution required from each individual is of more or less the same value.

In practice, co-operatives are often a mixture of common ownership (with indivisible reserves or common wealth) and individual ownership (with divisible reserves apportioned on the basis of contribution to the business).³ In order to achieve both fairness and long-term sustainability, a balance has to be struck between the interests of each member and those of the co-operative as a whole. The contributions of different kinds of stakeholder need to be valued in an impartial way, with the different valuations being agreed by the membership and reflected in the distribution of the co-operative's income.⁴ These arguments are crystallised in the ICA's (2006) third principle of member economic participation, according to which "members contribute equitably to the capital of the co-operative".

The requirement for equity and impartiality points to the need to embed co-operative enterprises within a wider movement for social justice. Co-operative enterprises are necessary but not in themselves sufficient to maintain co-operative identity – wider social, legal and political co-operative institutions are also required, ie an international co-operative movement. This helps to explain the ICA's (2006) fifth, sixth and seventh principles relating to education of co-operative members and the general public, co-operation among co-operatives on all scales, and concern for community (to ensure sustainable development).

It is currently fashionable to seek to re-brand co-operatives as ethical or social businesses (see, for example, Brown et al, 2004), and therefore place them within a wider category of social enterprises. The term 'social enterprise' has been used loosely (for example, by the UK government⁵), but it is probably better to follow the more precise EMES definition as a business that is neither public nor private but 'third sector', 'with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits' (Defourny, 2001: 16-18; Defourny and Nyssens, 2006: 5-6).

At first glance, it might appear that co-operatives fit well within this meaning. They are organisations that are neither state-owned nor privately owned, so in this sense are autonomous 'third sector' bodies. The definition

also emphasises OMOV and participatory decision-making, which are characteristic of co-operatives. It would appear, however, to exclude those co-operatives whose sole purpose is to advance the interests of their members and is vague on the issue of member ownership and control. Accepting this re-branding of co-operatives would therefore result in a division between 'economic' co-operatives (member-owned for members' benefit) and 'social' co-operatives (owned by a collective with social aims). This division is artificial because it is not clear why the actions of an enterprise that benefit its members should not at the same time benefit a wider community and society. In the case of a co-operative in particular, its 'economic' activities are essential for maintaining its autonomy, without which it could not have its own 'social' objectives, anyway. For these reasons, it seems reasonable to include all co-operatives that demonstrate OMOV member ownership and control as social enterprises.

Co-operative values

Co-operative values are listed by Co-operatives^{UK} (2004: 3) as:

- 1) Self-help: in co-operatives people help each other whilst helping themselves by working together for mutual benefit.
- 2) Self-responsibility: individuals within co-operatives act responsibly and play a full part in the organisation.
- 3) Democracy: a co-operative will be structured so that members have control over the organisation.
- 4) Equality: each member will have equal rights and benefits (according to their contribution).
- 5) Equity: members will be treated justly and fairly.
- 6) Solidarity: members will support each other and other co-operatives.

These values, however, do not look very different from those that guide other kinds of organisation such as plcs or corporations (a point noted by Birchall, 2005⁶). As in a co-operative, the members of a corporation work together for mutual benefit and take responsibility for the organisation as a whole. There is a form of democracy, in that those who own the corporation (the shareholders) take decisions democratically, at annual general meetings. The

rights and benefits of each member depend on the extent of their contribution, as measured by the size of their shareholding. Even the 'value' of solidarity is not entirely absent from the corporate sector, as corporations act together in federations and pressure groups such as the Confederation of British Industry and the Institute of Directors.

In practice, corporations are commonly criticised for their exploitation of labour, their incessant drive to make profits, and their ethical irresponsibility across a range of concerns (see, for example, Bakan, 2004, for a detailed account). Co-operatives, however, must also give priority to the needs of their members rather than the general public, they may themselves hire staff and exploit them or contract companies that do so, and if they decide to be less profit-oriented they will have less to distribute among themselves and/or they may lose business to competitors.

If co-operatives are to maintain a distinct identity, therefore, their values must be stated more clearly than this. Two issues are particularly crucial for co-operatives. The first is that of **autonomy** (as expressed in ICA's, 2006, fourth principle): co-operatives are concerned to be economically independent of the public sector (eg by not relying on government grants) and also of the private sector (eg by not relying on external investment). This value is framed within a wider (ideally global) solidarity co-operative movement, which has a long history. Autonomy of economic action is valued, not for its own sake (as in a liberal concept of autonomy – see, for example, Rawls, 1971), but as a necessary condition for collective human emancipation - a value that is shared by what are called 'New Social Movements' generally (see, for example, Offe, 1985). Co-operative enterprises have the potential to create autonomous 'spaces of hope' (Harvey, 2001) in which alternative "non-capitalist, collective forms of politics, identity and citizenship" (Pickerill and Chatterton, 2005: 1) can be developed. How these 'spaces of hope' are to be integrated in order to constitute a genuine global alternative to capitalism and state domination, however, remains the key unanswered question.

The second issue is that of **membership**. The key questions here (to which there is a rich variety of answers) are who is entitled to be a member of the co-operative, what is the source of their entitlement and what are their rights and obligations to one another. Relevant co-operative

values would appear to be those of solidarity and OMOV democracy – the principle that ‘members have one vote per person regardless of the amount saved, deposited, borrowed, bought or work done’ (Davidmann, 1996a: 8). Plcs also value autonomy and even solidarity up to a point, but they are not democratic in this strict sense.

Co-operatives are unique in placing themselves within a wider movement. It is difficult to see how the criteria for inclusion in such a wider movement could not include a common commitment to co-operative principles, values and goals of a horizontally organised society composed entirely of co-operative enterprises and institutions. The wider membership of the movement can then be regarded as the constituency from which the membership of individual co-operatives is drawn – and as a corollary, the membership of the movement can be expanded through the recruitment of members for co-operative enterprises.

Co-operatives can appear similar to plcs in that many of them aim to achieve surpluses for their members. These co-operatives are **not** not-for-profit organisations (known in the US as ‘nonprofits’), like charities in the UK, because they are not subject to any ‘non-distribution constraint’, ie they are not forbidden from distributing any part of their surplus to their members or stakeholders (Hansmann, 1996). A co-operative exists primarily to benefit its members, whereas a not-for-profit organisation typically exists to benefit others and, as such, commonly relies on gifts of time or money and enjoys a privileged tax position. The role of a member of a co-operative is therefore quite different from that of a volunteer or donor to a not-for-profit organisation. When co-operatives claim to be non-profit organisations, therefore, this must mean not that they do not try to generate surpluses but that they do not exploit their workers and that they organise their finances in such a way as to maximise the benefit for all their members rather than in proportion to the amount of capital invested – the process of distribution/reinvestment is therefore not directly related to the return on capital invested. Values of non-exploitation of labour and equality/commonality of benefit can therefore be seen to be at the heart of co-operative enterprise.

The values that define the identity of co-operatives can therefore be summarised as:

collective autonomy, equality of power (both within and among co-operatives), and sharing of the benefits of co-operative action (involving solidarity and mutual aid).⁷ These values can be related to the institutional identity of a co-operative as follows: the co-operative value of collective autonomy is expressed institutionally in terms of full control and management by the members; that of equal power in terms of OMOV decision-making systems and processes; and that of mutual aid in terms of the pooling of individual contributions by the membership. This analysis therefore goes some way to providing the value coherence that Birchall (2005) has called for.

Co-operatives in practice

Co-operatives exist in a rich variety of organisational forms, with many different kinds of membership roles: worker and employee-owned co-operatives, consumer co-operatives, housing ownership and management co-operatives, community benefit societies, development trusts, co-operative consortia and credit unions. Co-operatives can be networked or federated, ‘collective’ or ‘representative’. They can participate in group structures, eg as primary or secondary co-operatives, or as owners or subsidiaries of non co-operatives. They do not even have to be incorporated as legal entities, eg if the members decide that the advantage of limited liability does not outweigh the disadvantage of regulation and its costs (see Fig 1).

The two main kinds of members are workers and consumers.⁸ Worker co-operatives are owned in common or jointly by those who work in the enterprise, with each worker’s vote carrying the same weight in the governing of that enterprise.⁹ Worker co-operatives are distinguished from Employee Stock Ownership Plans (ESOPs) by being worker-managed as well as worker-owned (Pendleton, 2001).¹⁰ The best known example of a common ownership worker co-operative is a kibbutz, where in principle the fruits of the labour of every member are pooled and decisions concerning that pool are made by the membership as a whole. Such co-operatives are sustainable only on the basis of strong commitment to the purpose of the enterprise, regular inputs of fresh new labour and/or substantial external material and political support. Each of these factors is

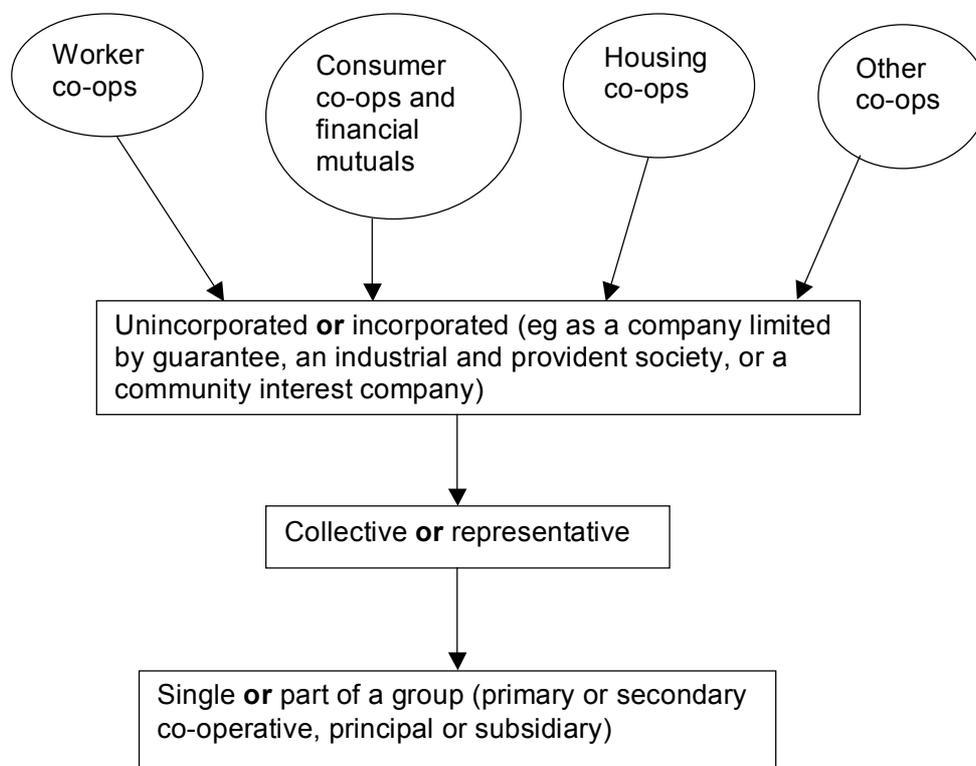


Fig 1: Classification of co-operatives

relevant insofar as it adds to the overall investment in the enterprise.

Unsurprisingly, worker co-operatives tend to give priority to their existing workers, and this focus typically extends to the needs of those workers and their families in relation to housing, pensions, education, health, etc.¹¹ Ultimately, however, their success depends on the performance of the enterprise in what is now a global market, and this requires, among other things, increasing productivity and market share and, in general, competing successfully against other enterprises. Consequently, they are under pressure to become more ‘managerial’, by employing people who have better understanding of how the market works, how to innovate in terms of products, services and working practices, and how best to introduce such innovations into the enterprise. For this reason, they risk degenerating from worker control into managerial rule, ie into hierarchy or ‘imperative co-ordination’ (Hirst, 1997).

Consumer co-operatives and ‘mutuals’ (consumer co-operatives mainly in the financial sector) are in a different position. They are said to belong to, and exist for the benefit of, their customers. In some of these co-operatives, members receive a dividend in proportion to the amount that they spend on goods and services provided by the co-operative. Typically, in

accordance with ICA principles, dividends constitute a relatively small proportion of the surpluses accumulated by these co-operatives, and this practice also enables consumer co-operatives to compete successfully with plcs. Strictly speaking, such co-operatives are commonly owned rather than individually owned, with each member having only a nominal stake in the enterprise.

In financial mutuals, the membership consists of two kinds of people: those who put capital into the enterprise and those who take capital out. Typically, these are either lenders and borrowers, as in the case of building societies, or policyholders (paying premiums in or making claims against, etc) in the case of insurance companies. Except for with-profits policyholders (if they are lucky!), they receive no dividends.

Where membership of a co-operative is small, it should be possible for all the members to participate in its decision-making processes – these are called ‘collective’ co-operatives (Co-operatives^{UK}, 2004). Beyond a certain size, however, an element of representation is inevitable, leading to what are called ‘representative’ co-operatives. These are characterised by a two-tier structure, in which the membership as a whole elects an executive committee or board of directors who make

decisions on behalf of the membership and report back on a regular basis.

In collective co-operatives, internal democracy is typically very strong, although they can experience difficulty in growing beyond a certain size. In representative co-operatives, however, internal democracy can be very weak – generally, the larger the enterprise, and the smaller the investment made by its members, the weaker the democracy will tend to be. This can lead to degeneration (see below).

Overall, then, it is clear that co-operatives belong to the third sector: they do not include companies where decision-making power depends on the amount of (private) investment made, nor do they include state-owned enterprises where such power lies in the hands of politicians. They are fully owned and controlled by their members on OMOV principles and, on the whole, they demonstrate the features of co-operative identity described in earlier sections, both in terms of their values and their institutional form.

Threats to co-operative identity - the 'degeneration thesis'

According to Cornforth et al (1988), market pressures tend, over the course of time, to lead to co-operatives becoming similar to other kinds of enterprise, particularly capitalist enterprise (see also Mellor et al, 1988; Pendleton, 2001), although this tendency is by no means inevitable (Paton, 1989; Cornforth, 1995; Spear and Voets, 1995). This is known as the 'degeneration thesis'. Market pressures make themselves felt in a number of ways, eg price competition and liquidity of investment. One could also point to bureaucratisation tendencies (eg for ease of managerial decision-making) and the role of the state (eg through tax and regulation regimes that work against member-owned democratic enterprises). Within a co-operative, these pressures are experienced as tensions of different kinds, eg over the extent to which surpluses should be retained or distributed to members, over whether OMOV should be upheld but with a restricted membership or modified but with an expanded membership, or over whether strict equality of members should be maintained or an element of hierarchy allowed. Attempts to resolve such tensions can lead to 'degeneration'.

The evidence in the references cited above would appear to suggest that degeneration

springs from two main sources: weak internal democracy, where the members are unable to hold the leadership/management to account or have too little stake in the enterprise to influence decision-making processes; and abandoning the principle of member ownership and control (eg by allowing external investors to gain a foothold in the enterprise).

Weak internal democracy

In the case of individually owned co-operatives, the process of accumulating and retaining reserves (commonly owned assets) can weaken the internal democracy of a co-operative by strengthening the hand of management relative to the membership. What can happen is that, as the common wealth grows in size, the stake of each member diminishes in comparison, so that those responsible for managing the common wealth as a whole become more powerful. Over the course of time, this can transform a co-operative into something that looks (but not necessarily acts) like just another corporation.¹²

Weak internal democracy is a common problem in large commonly owned co-operatives. As the Myners review of the governance of life mutuals noted (HM Treasury, 2004: 13), although a third of their members prefer to be active and involved, most do not fully participate in the enterprise (mainly because the size of their stake in it is small). This review highlighted the importance of effective internal democracy in terms of the exercise of *voice* by members, their power to **exit**, and the presence of **external discipline** or regulation. In the case of life mutuals, as with consumer co-operatives generally, the principle of OMOV meant that control of the company was widely dispersed, making it difficult for members to organise effectively to influence decisions taken by the company's management. Members lacked the information, resources and motivation to actively monitor the company, voting processes were not always fair and open, and non-executive directors did not play an effective role in representing customer/member interests (HM Treasury, 2004: 11). Clearly, these comments can apply also to other kinds of co-operative, where members lack voice in terms of legal powers or capacity to call their representatives to account, or find it difficult to leave (eg members of worker co-operatives).¹³

If members feel they have little or no influence over the decisions that an enterprise makes, it

seems likely that they will be less inclined to identify with it or feel any 'ownership' of it. In such circumstances, they may be more receptive to proposals to demutualise, particularly where substantial 'bribes' have been offered in the form of free shares. Consequently, in recent years, many mutuals, particularly building societies and financial mutuals, have demutualised and become plcs. The market share of life mutuals alone has shrunk from over 50% in 1995 to 16% in 2003 (HM Treasury, 2004: 21) and is set to shrink considerably further, following the vote to demutualise taken by Standard Life members in 2006.¹⁴ Similarly, the market share of building societies has fallen to less than a third of its original size.

The Myners report suggests that there can be good reasons to demutualise in the best interests of members, but none of the reasons it mentions seems particularly convincing.¹⁵ The use of a mutual's reserves to 'bribe' its own members to vote for demutualisation actually highlights the lack of any real entitlement to a share of such reserves on the part of most members of a mutual.

Another serious problem with consumer co-operatives is that those who have most to gain or lose from the enterprise are typically its workers, but the OMOV rule can leave these workers feeling relatively powerless. This results in the enterprise becoming controlled by a managerial elite, who can take advantage of the weakness of the membership as well as the workforce to ensure that their will prevails.¹⁶ This criticism applies not only to consumer co-operatives. For example, the John Lewis Partnership, which claims to be owned by its employees, actually operates a system whereby the employee members cannot effectively determine the decisions made by the Partnership Board (Davidmann, 1996c).¹⁷

Abandoning member ownership and control

If the principle of OMOV control of the enterprise is to be maintained, then the only ways to increase investment, other than through member input and donations, are through retained surpluses and loan finance. Surpluses in small-scale enterprises, however, are often too low to generate significant expansion, and banks have shown little understanding of the needs of co-operative enterprises (Reed and Stanley, 2005: 16). So it can seem to some co-operatives that the only way forward is through new forms

of loan finance (for example, government provision of a co-operative venture capital fund¹⁸, or increased use of Community Development Finance Institutions – Brown et al, 2004: 139) and/or abandoning the principle of democratic member control altogether.

Opening up a co-operative to external investment, however, even if the investors do not acquire any voting rights, can result in the enterprise becoming more like a plc, because of the imperative to secure profits to satisfy the investors. Although ostensibly controlled by its members, a co-operative that chooses to go down this road tends to become more profit-oriented in order to retain investor interest – simply because, if the shares become unattractive to investors, their value will fall, negating the advantage to the co-operative of issuing the shares in the first place.¹⁹

The report *Co-operative Capital* (Brown et al, 2004) sought to address this issue. It concluded that: external investment of some kind is essential if co-operative enterprises are to grow and survive in the long term (Brown et al, 2004: 34); the investors should be allowed to become members of the co-operative, thus establishing a secondary market in 'co-operative capital' (Brown et al, 2004: 35); and internal democracy should be safeguarded by limiting the voting rights of the external investors to 25% and their share of the profits to 50% (Brown et al, 2004: 122).

There are problems with these proposals. First, it is not clear why external investment should be seen as essential for the long-term survival of co-operatives: many enterprises, both co-operative and non-co-operative, manage to grow and succeed with the help of bank loans, bond issues, etc, that do not give the lenders any rights over the enterprise itself (see, for example, Bickle, 2006: 36 – in the West Midlands, co-operatives actually last significantly longer than the average for businesses in that region). Even conceding this, however, these proposals would be likely to lead to degeneration. Although external investors would be in the minority in terms of membership voting strength, their power of exit could still be sufficient to tip the balance of power in their favour within the enterprise. Given the illiquidity of the investment by other stakeholders such as workers and borrowers, and the weakness of internal democracy in so many consumer co-operatives, even a minority of external investors could hold the enterprise to ransom

by a threat to withdraw their investment. The very possibility of such a threat, triggered by a fall in share values, for example, would probably be enough to ensure that the enterprise will tend to follow a profit-maximising path. At least, it is difficult to see how the co-operative would be able to retain its independence. The mere presence of the external investment would serve to impose the discipline of the financial markets upon the decision-making processes of the enterprise.

Entirely missing from the discussion in *Co-operative Capital* is an understanding of the need for a co-operative to be embedded within a wider framework of democratic ways of working and democratic politics. Currently in the UK, the framework of external democracy for co-operative enterprise is very weak, often leaving individual co-operatives relatively isolated and sometimes under siege. Though by no means inevitable, this could tend to make the co-operatives concerned more inward looking and more resistant to change than would otherwise be the case. Consequently, they might resort to 'sticking to the knitting', fail to grow or renew themselves, and fall into a long, slow decline.

Countering degeneration

Factors countering degeneration and favourable to co-operative enterprise can perhaps be classified according to whether they relate to the internal environment, the co-operative environment, or the external environment (Wanjare and Meaton, 2006). This classification broadly corresponds to the three different types of social capital: bonding, bridging and linking (Putnam, 2000). The internal environment refers to the close ties within a co-operative, including its non-hierarchical character and its OMOV decision-making; the co-operative environment signifies networks of mutual support among co-operatives, including co-operative development agencies and federal structures, as well as the wider co-operative movement; and the external environment means the wider context of market and state that can provide opportunities for co-operatives to form and grow - for example, transferring assets to co-operatives, providing them with tax relief and favourable loan finance, awarding them contracts, providing relevant training and technical assistance, generally keeping out of their internal affairs, increasing corporation tax for plcs, and requiring local authorities to promote

co-operative enterprise. The potential for improving all three kinds of environment is huge.

A clear way to prevent degeneration would be to introduce an 'asset lock' whereby the legal form of the enterprise requires that it have social or community purposes (reflecting the ICA principles) and that its assets and surpluses be dedicated to those purposes. Until recently, the main way for an enterprise to 'lock in' its assets was to be registered as a charity, but this was not appropriate for many co-operatives (particularly worker co-operatives and housing co-operatives). In July 2005, however, the Community Interest Company (CIC) was introduced, which allows an enterprise to protect its assets from being privatised and its surpluses from being distributed to shareholders. Since then, 678 CICs have been launched, 81% of which are new enterprises (Social Enterprise Coalition annual conference, Manchester, January 2007).

'Community co-operatives'?

In recent years, there has been a revival of co-operative enterprise, for a number of reasons: for example, New Labour's 'Third Way', which conveniently combines 'co-operation' with 'enterprise' (DTI, 2002); the Fair Trade Movement (Rodrik, 2001; Monbiot, 2003, chap 6); the Green agenda (with an emphasis on small co-operatives, farmers' markets, and common ownership of land - see, for example, Mayo et al, 1996; Douthwaite, 1996; Begg, 2000; Hines, 2000); and a widespread dissatisfaction with plcs, which are perceived as greedy, exploitative, polluting, undemocratic and generally unethical in their practices (see, for example, Bakan, 2004). Research recently completed by the author considers (among other things) the contribution made by some of these new enterprises, specifically community-based organisations, to our understanding of co-operative identity.

Typically, the new enterprises do not call themselves co-operatives but community associations or community groups. They are democratic bodies in that most, if not all, of the governing committee or board of the association/group is elected by the entire membership at an AGM on the basis of one member one vote. They are different from traditional worker, consumer and housing co-operatives, however, in that the main qualification for membership is residence or employment in a particular geographical area

or 'community' rather than any particular 'stake' that they might have in the enterprise. Co-operative ownership is therefore understood here as a form of community ownership. The primary purpose of these new 'community co-operatives' is to improve the well-being and quality of life of everyone in their community.

Since membership is based primarily on residence, it is hardly surprising that housing organisations tend to figure prominently in the group. To take just three examples, WATMOS Homes in Walsall is itself a housing association, Coin Street Community Builders (CSCB) in London owns its own housing co-operatives, and Eldonian Community-Based Housing Association in Liverpool is a leading organisation in The Eldonians group structure. Apart from housing, the range of enterprises in which each association/group is involved is vast, with much of the work being concentrated on the physical, economic and social regeneration of the areas and communities concerned. In their early years, all the associations/groups experienced serious conflict with the local authorities in whose territory they are based – a conflict that tended to leave them stronger (and possibly more united) than before.

An important feature of the new co-operatives is that they have grown rapidly without relying on external investment. They have been kick-started through public funding and the transfer of public assets, and have then developed their own income streams, sometimes with the aid of traditional loan finance. Ownership of a valuable asset base (land, buildings, and/or the community itself) would appear to be key to their growth and continuing success. The nature of their origin has also perhaps influenced commentators to see co-operative enterprise as having potential in public service delivery, although the source of this influence does not seem to have been widely acknowledged (Reed and Stanley, 2005).

Each 'community co-operative' has lessons for the analysis of co-operative identity, because each is and yet is not a co-operative enterprise. Royds Community Association in Bradford, for example, is a co-operative to the extent that its membership is open to all of its stakeholders (the people who live in the area); it is owned by its members and run on a democratic basis for the benefit of its members; and its assets are locked into the enterprise through its development trust. The only respect in which it is not a co-operative is that it is not fully

controlled by its members, because a minority of its decision-making body are appointed from outside the enterprise, representing community interests other than the community association. In this latter respect, Royds is more accountable to its local community than many traditional co-operatives, though this is perhaps at the cost of being unconnected with the co-operative movement.

The Eldonians counts as a co-operative in terms of its group structure, because membership of the group is open to all residents of the area, and the members fully control the different organisations within the group on OMOV principles, for the benefit of residents as a whole. The Eldonians is not a co-operative, however, insofar as each of the various enterprises within the group is not fully owned by its own members – eg the community-based housing association is owned by the Eldonian Community Trust. The experience of the Eldonians raises the question of the appropriate scale at which the co-operative principle of autonomy should apply. Initially, the Eldonians applied it on the scale of an individual enterprise, eg a housing co-operative, but over the course of time they developed their co-operative organisation across a range of different enterprises. Paradoxically, this development led them to abandon strict adherence to co-operative principles at the level of individual housing and community initiatives.

CSCB makes an interesting contrast both to Royds and to the Eldonians. It looks like a co-operative because it is fully owned and fully democratically controlled by its members, also for the benefit of residents as a whole. It is not a co-operative, however, because its membership is not open to all its stakeholders but restricted to preferred categories. As a counterbalance, though, at the level of an individual enterprise, CSCB has created or sponsored a number of housing co-operatives.

Conclusion

This paper has attempted to review critically the concept of co-operative identity. Through a discussion of co-operative institutions, principles and values, it has been argued that co-operatives are democratic, member-owned and controlled enterprises, in which membership is open to all stakeholders and decisions are taken on the basis of one member one vote. Two main ways that co-operatives 'degenerate' into other kinds of enterprise have

been examined: abandoning the principle of member ownership and control, and weak exercise of internal democracy. The former can be tempting to co-operatives that are looking to increase their level of investment by non-members, but this paper has found no convincing justification for such action, particularly where sufficient investment can be raised in the form of loans. If further investment is required, however, then the principle of member ownership and control can still be safeguarded by building in an 'asset lock' to protect the members' assets from carpet-baggers.

Weakness of internal democracy, though, is perhaps a more difficult problem, and it is not clear that even an asset lock would be strong enough to prevent an opportunistic management from successfully implementing a demutualisation strategy in a co-operative with a largely passive membership. So the major question raised by this paper is how to ensure that co-operatives remain as democratic as possible, with active participation by their entire membership, and the beginnings of an answer have been suggested in terms of building bonding capital within the enterprise, bridging capital across co-operative enterprises and their supporting agencies, and linking capital such as forms of state support and regulation producing a more favourable environment for co-operative activity.

Three examples of what the paper provocatively calls 'community co-operatives' were chosen to test the concept of co-operative identity developed in this review. By focusing on organisations that are on the boundary between co-operative and non-co-operative social enterprises, the intention was to throw light on the meaning of co-operative identity itself. The distinctive characteristic of these organisations is the strength of their accountability to their local communities, and in this respect they compare favourably with many traditional co-operatives.

Evidence from these 'community co-operatives' suggests that the weak internal democracy in some co-operatives could be related to (among other things) their lack of accountability to a wider constituency – in particular, a constituency that is powerful enough to enforce regulation that ensures effective OMOV decision-making. The principle of autonomy is essential, but it needs to be balanced against a responsibility to community and society generally – otherwise it could serve

to protect the more powerful voices within the collective, which tend to be those of the co-operative's managers. Arguably, therefore, the ICA's seventh principle of 'concern for community' needs to be strengthened to something like 'accountability to community', which would signify a commitment to the exercise of wider democratic responsibility. In general, more thought needs to be given as regards the most appropriate roles for national and local governments, and for the co-operative movement more widely, in enhancing co-operatives' internal democracy.

This paper has raised an important issue concerning the democratic status of different kinds of members in co-operatives. While it seems fundamental to co-operative values that membership should be open to all their stakeholders, in practice most co-operatives restrict their membership to one type of stakeholder (eg worker, consumer, tenant/resident, investor, borrower or supporter). As one would expect, and as confirmed by the evidence cited in this paper, such single-stakeholder co-operatives are unlikely to act in the interests of those stakeholders who are not represented in the co-operative's decision-making processes, eg worker co-operatives can tend to neglect the voice of their consumers and consumer co-operatives can tend to ignore the voice of their workers. The value of a co-operative, however, is far greater for its workers than for its consumers, so it seems unjust that the two kinds of stakeholder should have equal decision-making power, eg that the vote of a worker should be equivalent to that of a consumer (particularly since the number of consumers is likely to be far greater than the number of workers). More thought needs to be given, therefore, to what might be the most appropriate and fair representation of each type of stakeholder on the boards of multi-stakeholder co-operatives in different contexts.

A similar issue concerns how the contribution of each member to the enterprise should be recognised and rewarded. Albert (2003), for example, argues that in a co-operative economic system people should be rewarded according to the amount of 'effort' (duration and intensity of labour) or 'sacrifice' (eg capitalisable spending power) they invest in the enterprise. Arguably, this is a fair basis for deciding on levels of remuneration within an enterprise: in most cases, workers would receive the highest remuneration, followed by investors (according

to the value of their investment), while it would be difficult to justify giving customers any remuneration at all (except by way of some 'loyalty' payment in return for regularly providing income for the enterprise). Following the principle of autonomy, it should be left to each co-operative to determine the distribution of remuneration, but guidance from an independent auditor/evaluator should be available wherever appropriate. Enterprises would, of course, still be liable to pay taxes, to help fund the infrastructure that enables their business to operate and to help those in need.

A difficult question is whether investors should be entitled to transfer their investment to someone else and to take it out if and when they leave the co-operative. On balance, the preference should be for a negative answer, because an external market in investment tends to distort and undermine the co-operative's internal decision-making processes. In practice, however, different investment rules may be appropriate for different co-operatives, so each case should be considered on its own merits.

The final issue concerns how member control can be most effectively protected, and hence co-operative identity sustained in the long term. If the principle of democratic membership ownership and control is realised within the enterprise, and if the contribution of each member to the enterprise is recognised by the members and rewarded in a manner that they generally consider to be fair, then the co-operative is in a good position to sustain itself. This position can be further strengthened by embedding the enterprise within a 'community' in some sense. Ideally, this involves a group or federation of enterprises serving the community

as a whole. This appears to be achievable at the level of a neighbourhood (Coin Street being perhaps the most notable example), particularly when combined with a form of governance that places sovereign power in the hands of community representatives (as in *The Eldonians*). The conditions of a neighbourhood base and activity across a number of different functions and services help to ensure an active, long-lasting membership.

No neighbourhood community is an island, however, and the long-term sustainability of co-operatives ultimately depends on how these newly empowered communities relate to the rest of the world, and this means in particular to the market and the state. In the case of the former, they have to achieve, in co-operation with other co-operatives, salience in the relevant markets in which they operate, and this means ultimately a global scale of operations. In the case of the latter, embedding community-based co-operatives over territories of jurisdiction larger than neighbourhoods, even across a local authority area, can tend to involve a weakening of their community base.²⁰ This helps to explain the lack of linkage between the democratic practice of many co-operatives, both old and new, and that of the political system.²¹ Ultimately, co-operatives need strong political and public support if they are to survive and thrive. An important challenge for the future is to identify forms of co-operative that: can make inroads into the private and public sectors; fairly incorporate the concerns of producers, consumers and the general public; and are or can be embedded in effective projects for economic, social and political transformation.

The research on which this article is based was funded by the Economic and Social Research Council (Award Reference RES-000-22-0958). The author is grateful for the comments from three anonymous referees on earlier drafts of the article.

Bibliography

- Albert, M (2003) *Parecon: Life After Capitalism*. London: Verso.
- Bakan, J (2004) *The Corporation: The pathological pursuit of profit and power*. London: Constable and Robinson.
- Barton, D G (1989) 'Principles', in Cobia, D W (ed) *Co-operatives in Agriculture*. New Jersey: Prentice-Hall: 21-34.
- Begg, A (2000) *Empowering the Earth: Strategies for social change*. Dartington: Green Books.
- Besley, T and Ghatak, M (2001) 'Government versus private ownership of public goods', *Quarterly Journal of Economics* 116, 4: 1342-72.
- Bickle, R (2006) *Co-operation and Social Enterprise in the West Midlands*. MSc dissertation, University of Birmingham.
- Birchall, J (2005) *Co-operative Principles Ten Years On*. Available at: <http://www.ica.coop/coop/principles.html>
- Brown, J et al (2004) *Co-operative Capital: A new approach to investment in co-operatives*. Manchester: Co-operative Action.
- Cockerton, P, Gilmour-White, T, Pearce, J and Whyatt, A (1980) *Workers Co-operatives: A handbook*. Aberdeen: Aberdeen People's Press Ltd.

- Co-operative Commission (2001) *The Co-operative Advantage. Report of the Co-operative Commission*. The Co-operative Commission.
- Co-operatives^{UK} (2004) *Participation in Governance: Case study examples*. Manchester: Co-operatives^{UK}.
- Co-operatives^{UK} (2005) *Corporate Governance Code of Best Practice*. Manchester: Co-operatives^{UK}.
- Cornforth, C (1995) 'Patterns of co-operative management: beyond the degeneration thesis', *Economic and Industrial Democracy* 3: 17-30.
- Cornforth, C et al (1988) *Developing Successful Worker Co-operatives*. London: Sage.
- Davidmann, M (1996a) *Co-operatives and Co-operation: Causes of Failure, Guidelines for Success*. Available at: <http://www.solbaram.org/articles/coops.html>
- Davidmann, M (1996b) *Mondragon Co-operatives*. Available at: <http://www.solbaram.org/articles/mondra.html>
- Davidmann, M (1996c) *John Lewis Partnership plc*. Available at: <http://www.solbaram.org/articles/johnle.html>
- Defourny, J (2001) 'From third sector to social enterprise', in Borzaga, C and Defourny, J (eds) *The Emergence of Social Enterprise*. London: Routledge: 1-28.
- Defourny, J and Nyssens, M (2006) 'Defining social enterprise', in Nyssens, M (ed) *Social Enterprise: At the crossroads of market, public policies and civil society*. London: Routledge: 3-26.
- Department of Trade and Industry (DTI) (2002) *Social Enterprise: A strategy for success*. London: DTI.
- Douthwaite, R (1996) *Short Circuit: Strengthening Local Economies for Security in an Unstable World*. Dartington: Green Books.
- Girard, J.-P and Langlois, G (2006) 'Multistakeholder co-ops: some critical observations by Canadian perspective', paper presented to *Reclaiming the Economy: The role of co-operative enterprise, ownership and control*, An International Conference on Co-operative Forms of Organization, Cardiff, 6-8 September.
- Hansmann, H (1996) *The Ownership of Enterprise*. Cambridge, Mass: Harvard University Press.
- Harvey, D (2001) *Spaces of Capital: Towards a critical geography*. Edinburgh: Edinburgh University Press.
- HM Treasury (2004) *Myners Review of the Governance of Life Mutuals: Final Report*. London: HMSO. Available at: <http://www.hm-treasury.gov.uk>
- Hines, C (2000) *Localization: A global manifesto*. London: Earthscan.
- Hirst, P (1997) *From Statism to Pluralism*. London: UCL Press.
- International Co-operative Alliance (ICA) (2006) *Statement on the Co-operative Identity*. Available at: <http://www.ica.coop/coop/principles.html>.
- Kaswan, M (2006) 'Utility, property and democratic theory in co-operatives', paper presented to *Reclaiming the Economy: The role of co-operative enterprise, ownership and control*, An International Conference on Co-operative Forms of Organization, Cardiff, 6-8 September.
- Leigh, D (2006) *Whither or Wither the Co-operative Party?* Available from: dave6637@aol.com.
- MacPherson, I (1995) *Co-operative Principles for the 21st Century*. Geneva: International Co-operative Alliance.
- Mayo, E et al (1996) *Taking Power: An Agenda for Community Economic Renewal*. London: New Economics Foundation
- Mellor, M, Hannah, J and Stirling, J (1988) *Worker Co-operatives in Theory and Practice*. Milton Keynes: Open University Press.
- Monbiot, G (2003) *The Age of Consent: A manifesto for a new world order*. London: Flamingo.
- Offe, C (1985) 'New social movements: challenging the boundaries of institutional politics', *Social Research* 52, 4.
- Office of the Deputy Prime Minister (ODPM) (2006) *Communities Taking Control: Final report of the cross-sector work group on community ownership and management of assets*. London: ODPM.
- Paton, R (1989) *Reluctant Entrepreneurs*. Milton Keynes: Open University Press.
- Pendleton, A (2001) *Employee Ownership, Participation and Governance: A study of ESOPS in the UK*. London: Routledge.
- Pickerill, J and Chatterton, P (2005) 'Living between worlds: autonomous geographies and everyday life beyond activism', paper presented at CAOS workshop, University of Leicester, 18 May. <http://www.le.ac.uk/ulmc/caos/>
- Putnam, R (2000) *Bowling Alone: The Collapse and Revival of American Community*. New York: Simon and Schuster.
- Rawls, J (1971) *A Theory of Justice*. New York: Harvard University Press.
- Reed, H and Stanley, K (2005) *Co-operative Social Enterprise and its Potential in Public Service Delivery*. London: Institute for Public Policy Research.
- Rodrik, D (2001) *The Global Governance of Trade – as if development really mattered*. New York: UNDP.
- Somerville, P (2005) 'Community governance and democracy', *Policy & Politics* 33, 1: 117-144.
- Spear, R and Voets, H (1995) *Success and Enterprise*. Aldershot: Avebury.
- The Independent Commission on Good Governance in Public Services (2004) *The Good Governance Standard for Public Services*. London: Office for Public Management and The Chartered Institute of Public Finance and Accountancy.
- Wanjare, J and Meaton, J (2006) 'Enabling environment: the case of worker co-operatives in Britain', paper presented to *Reclaiming the Economy: The role of co-operative enterprise, ownership and control*, An International Conference on Co-operative Forms of Organization, Cardiff, 6-8 September.

Notes

- 1 In some cases, these pay little or no dividend and carry reduced or absent voting rights (eg the Centre for Alternative Technology at Machynlleth and Traidcraft). In other cases, shares have been issued to such an extent that outside investors have been able to take control of the business (eg Poptel). More recently,

- co-operatives have issued non-voting preference shares up to £20,000 each (Brown et al, 2004, cited in Reed and Stanley, 2005: 15). Arguably, holders of co-operative shares issued to the general public should not be voting members of the co-operative enterprise – unless, perhaps, they are members of the wider co-operative movement, fully committed to its values and ideals.
- 2 Eg the token £1 share under the Industrial and Provident Societies Act 1965.
 - 3 This is recognised by the ICA (2006) in its statement that at least part of a co-operative’s capital “is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership”.
 - 4 The ICA (2006) specifies the purposes for which the surpluses of a co-operative may be allocated: “developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership”. In multi-stakeholder co-operatives in Quebec, for example, distribution is made to workers on the basis of the amount of work done in the relevant period, and to users on a pro rata basis according to their dealings with the co-operative, with no distribution at all being made to supporters (Girard and Langlois, 2006).
 - 5 The UK government definition of a social enterprise is: “A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to deliver profit to shareholders and owners”. (DTI, 2002).
 - 6 Birchall actually argues that principles rather than values should define the co-operative ‘difference’ or identity.
 - 7 Note the echoes of the French revolutionary slogan of ‘liberty, equality, fraternity’, applied to collectives as well as individuals. Contrast this with the analysis provided by Birchall (2005).
 - 8 A third category is that of distributors, eg farmers’ markets. Housing co-operatives are typically consumer co-operatives, though there are also a few housing producer co-operatives such as self-build co-operatives. In some housing co-operatives, the members both produce and consume the housing. Multi-stakeholder co-operatives, with different categories of member, such as workers, consumers/users and supporters, are relatively uncommon – see, for example, solidarity co-operatives in Quebec (Girard and Langlois, 2006). Credit unions are a growing part of the co-operative sector, where the members are both borrowers and savers. In the West Midlands alone, credit unions are now the largest group of co-operatives – 53 out of 148 (Bickle, 2006: 29).
 - 9 “The principle is that labour should hire capital rather than that capital should hire labour” (Cockerton et al, 1980, cited in Wanjare and Meaton, 2006: 5).
 - 10 Kaswan (2006: 2) points out that, in the US, ESOPS do not call themselves co-operatives, and do not even attempt to conform to co-operative principles.
 - 11 Possibly the most successful workers’ co-operative in the world is Mondragon in north-east Spain – see, for example, Davidmann (1996b).
 - 12 This is what Davidmann (1996b: 11) argues has happened in the case of Mondragon.
 - 13 Interestingly, Co-operatives^{UK}’s (2005a) new code of best practice does not even address the issue of ensuring that member voice can be meaningful in large, commonly owned co-operatives.
 - 14 Standard Life is the largest life mutual in the UK, with over £120 billion of assets at the end of 2005.
 - 15 These are: to obtain greater and more flexible access to capital; to diversify into riskier areas; to be free of legal restrictions; to pave the way to be taken over in response to increased competition and over-supply; and the short-term self-interest among members (to access reserves set aside for the long-term benefit of current and future members) and managers (to receive higher remuneration). The last of these is actually the main reason for demutualisation, and obviously not a ‘good’ one.
 - 16 So the negative views frequently expressed about ‘The Coop’ are not just due to its ‘unfortunate, old-fashioned image’ (Co-operative Commission, 2001) – there are actually well-founded reasons for these views.
 - 17 The Partnership has a Central Council of 135 members, of whom up to 20% are appointed by the Chair of the Partnership Board, while the rest are elected by the employees. This Council can then make recommendations to the Board, but the Board is not obliged to accept them. The Council also nominates only 5 out of the 12 Board Directors, so does not control the Board. True, the Council can remove the Chair of the Board if 67% of its members agree, but this is equivalent to 84% of its elected members. Contrast Suma Wholefoods in West Yorkshire, which is arguably a model of internal representative worker democracy (Co-operatives UK, 2004: 20-21). The example of Suma also shows how a collective worker co-operative can grow successfully into a representative worker co-operative.
 - 18 Brown et al (2004) suggest about £20 million for this. Similarly, ODPM (2006: 38): “A fund of around £150 million over seven years will help 500 community enterprise organisations acquire at least £500 million worth of assets, to generate long-term benefits in their communities”.
 - 19 Admittedly, some investors may not be interested in maximising the returns on their investment, but others will be, and the decisions of the latter will usually be sufficient to affect share prices. It is difficult to restrict the pool of investors to those who genuinely support co-operative values and ideals.
 - 20 Again, Mondragon would appear to be exceptional in having a ‘community’ base that extends across an entire region, namely the Basque country.
 - 21 The Co-operative Party, of course, is too strongly linked to the Labour Party to serve as an effective link – see Leigh (2006).