

## PUBLICATIONS 27

# NEW OPPORTUNITIES FOR CO-OPERATIVES: NEW OPPORTUNITIES FOR PEOPLE

PROCEEDINGS OF THE 2011 ICA GLOBAL RESEARCH CONFERENCE, 24–27 AUGUST, 2011, MIKKELI, FINLAND

JOHANNA HEISKANEN, HAGEN HENRY, PEKKA HYTINKOSKI AND TAPANI KÖPPÄ (EDS.)





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## MESSAGE FROM THE PRESIDENT OF THE REPUBLIC OF FINLAND

### *Esteemed conference participants*

*Throughout its history, the co-operative movement has demonstrated the importance of co-operation in economic activity. In today's global world, efforts towards sustainable growth have given entirely new meanings to partnership, mutual assistance and solidarity.*

*Co-operative businesses have often survived financial crises better than their competitors. Redistributing operational profit to their member communities, co-operative businesses level the effects of economic fluctuation and mitigate regional and social inequality.*

*In the global market economy, co-operative businesses are already notable operators in agricultural and food trade, for example, as well as financing and insurance. In December 2009 the UN General Assembly declared 2012 as the International Year of Co-operatives with the aim of increasing awareness of co-operative business activity and its opportunities as one potential solution to national and international socio-economic problems.*

*Organised on the eve of the International Year of Co-operatives, the ICA Global Research conference offers an excellent opportunity to examine the roles and possibilities of co-operatives in the light of today's global challenges. In 2012, 20 years after the Rio Summit, the world will be looking to another major environmental conference held in Rio de Janeiro for continued commitment to sustainable development programmes. This is a subject we have already discussed in the High-level Panel on Global Sustainability established by UN Secretary-General Ban Ki-moon.*

*Co-operatives have a great deal to contribute to sustainable development programmes. Co-operatives are strong in agriculture, forestry and the fishing industry. The co-operative movement is already a major force in food production and trade, and is also in a key position as a gateway to the consumer movement. As for the new green economy, the opportunities of the co-operative movement are nearly limitless.*

*The Finnish co-operative movement is well-known and valued throughout the world. Inspired by foreign influences throughout their development, Finnish co-operatives have only been able to reform by maintaining good connections with the international co-operative movement. In Finland, the past few years have witnessed a delightful surge of interest in the research of co-operatives, spurred by active contacts with international research communities. This conference is another demonstration of increased interest in the field and of effective co-operation, not only among universities but also between universities and the grass-roots level – that is, co-operative enterprises.*

*I am delighted that Finnish research of co-operative activity has been honoured with the task of hosting this international conference. It is my hope that you will come up with a wealth of initiatives aimed at continued and strengthened international co-operation, both in connection with the International Year of Co-operatives and with long-term objectives.*

A handwritten signature in blue ink that reads "Tarja Halonen".

Tarja Halonen  
President of the Republic of Finland



# FOREWORD

The 2011 ICA Global Research Conference took place in Finland from 24 to 27 August 2011. For the first time Finland with its strong tradition and history of co-operative enterprises had the possibility to host this international forum, which offered an innovative platform of information delivery and discussions for researchers as well as those, who are working in co-operatives or in the field of education.

The co-operative movement started in Finland at the end of the nineteenth century and Pellervo Society, the Finnish Confederation of Co-operatives, was founded in 1899. The pioneers and forerunners were Hannes and Hedvig Gebhard, born in 1864 and 1867. During the first decades of the twentieth century the co-operative movement became a decisive social innovation for the development of the Finnish economy both in towns and in rural areas. The Finnish rural economy has been dominated by co-operative dairies, slaughterhouses, shops, banks and a wood-processing company ever since and up until the twenty-first century.

It was a pleasure for the local organizers of the conference – the University of Helsinki Ruralia Institute, the Finnish Co-op Network Studies, The Enterprising Together project of the Ministry of Employment and the Economy, the Finnish Co-operative Council and the Mikkeli University Consortium – to welcome so many participants from all over the world, including high-level representatives of the ICA, the UN and the ILO. On behalf of the steering committee I would like to thank the speakers of the opening session: ICA Board Member Anne Santamäki, Vice-Rector Jukka Kola, ICA Director-General Charles Gould and Professor Salme Näsi; as well as of the closing session: Pellervo Society Director Sami Karhu, ICA President Dame Pauline Green, the Finnish Co-operative Council Board Member Tiina Linnainmaa, Professor Lou Hammond Ketilson and Professor Roger Spear.

The President of the Republic of Finland, Tarja Halonen, awarded her Letter of Support for the conference and it is published in this conference publication.

The conference received financial support from several sponsors and I wish to give my best thanks to all of them: Finncoop Pellervo, the S-Group and the Suur-Savo Regional Retail Cooperative, the Suur-Savo Cooperative Bank, Mikkeli City Council, Tampere City Council, Mikkeli University Consortium, the Enterprising together –project, FinSERN, the Federation of Finnish Learned Societies, the Finnish Cultural Foundation, South Savo Regional Fund and Savonlinja Oy.

In the abstract book more than 100 papers were included (University of Helsinki, Ruralia Institute, Publications 23, 2011). A selection of all papers presented during the conference are published now in this conference publication under the title “New Opportunities for Co-operatives: New Opportunities for People”.

The editors of the book are Johanna Heiskanen, Hagen Henrÿ, Pekka Hytinkoski and Tapani Köppä. I wish to express my best thanks to the editorial team, especially to Hagen Henrÿ, to all authors and to Jaana Huhtala, who was responsible for preparing the book for print.

On behalf of the steering committee and the Ruralia Institute of the University of Helsinki I wish success for the publication. I am happy that it is published in 2012, the International Year of Co-operatives. I hope it will convince the readers about the opportunities which co-operatives can offer to people.

Mikkeli, September 2012  
Pirjo Siiskonen



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# INTRODUCTION

HENRÛ, HAGEN, ADJUNCT PROFESSOR, UNIVERSITY OF HELSINKI RURALIA INSTITUTE, FINLAND

Every second year the Committee on Co-operative Research of the International Cooperative Alliance (ICA) brings researchers together at the global level to exchange the results of their work. For the first time ever such a research conference took place in Finland on the overall theme of “New Opportunities for Co-operatives”. 230 researchers, cooperative practitioners, and others from more than 35 countries and from almost all continents gathered on August 24 to 26, 2011 at the Ruralia Institute of the University of Helsinki in Mikkeli and many of them on August 27 at Tampere. They turned the meeting places into truly cosmopolitan platforms of ideas.

The event was the first global event in the spirit of the 2012 United Nations International Year of Cooperatives (IYC). The ICA, the United Nations (UN) and the International Labor Organization (ILO) acknowledged this through their high-level representation throughout the Conference.

This publication presents the proceedings of the Conference.

The choice of Finland was the result of tireless efforts by Professor Tapani Köppä and Dr. Niina Immonen. It came in recognition of the fact that Finland has a high density of cooperatives, that cooperatives contribute considerably to the economic and social wellbeing of its inhabitants, that some of the Finnish cooperatives rank among the largest in the world, that new forms of cooperatives have passed their testing phase here and that research is supported and recognized. Especially the welcome addresses attest to this recognition.

Prof. Carlo Borzaga and Prof. Köppä delivered keynote addresses, on “New Opportunities for Cooperatives and Social Enterprises in the Changing Landscape of the Welfare Systems” and on “Co-operative Entrepreneurship and New Humanism”, respectively. Prof. Köppä’s thoughts on epistemological challenges prompted a reply by the undersigned, not the least as a word of farewell and thanks to his predecessor at the Ruralia Institute.

Six Working Groups constituted the core of the Conference. More than 90 participants introduced their research and presented the results of their discussions to the plenary. A panel discussion at the end of the Conference brought researchers and practitioners together to also discuss these results.

Working Group No.1 on “Cooperative diversity and different types of success” was subdivided into “Cooperative financial institutions”, “Agricultural cooperatives” and “Social entrepreneurship”. The first subgroup dealt with savings and credit cooperatives and cooperative banks. Presentations confirmed that cooperatives fare better than other types of financial institutions during the current crisis. Success or failure does not seem to depend solely on profitability rates. However, where they divert under internal or external pressure from the cooperative principles, cooperatives seem to run the risks the current crisis reveals. Another topic addressed was the rather easy access to this type of enterprise for actors excluded from the commercial banking system, not only in so-called developing countries. Moreover, cooperative financial institutions seem to also be a suitable form for new forms of social banking. In addition, the role of government in the development of cooperatives was pointed out to. The second subgroup addressed competitive shortcomings of cooperatives due to farm size, alternative market opportunities and inadequate government involvement. Internal governance problems seem to exacerbate in some instances the effects of these external factors. Another topic was social capital as the connecting factor between cooperative ideology and member loyalty. It seems to be hard to constitute where cooperatives are not successful or where competition starts characterizing the relationship between cooperatives and even within cooperatives between members. The third subgroup on social entrepreneurship went beyond cooperatives to also analyze the contribution of social enterprises to the welfare state, as well as the level of their development and the conditions for the improvement of their performance. In a sec-

ond set, papers presented ideas on how to evaluate the social outcomes of cooperatives, mainly those of worker cooperatives, of work integration social cooperatives and of housing cooperatives.

Presentations in Working Group No.2 on “Co-operatives in the global context” demonstrated how cooperative ideas propagated not only through colonization, but also in a reverse trend from former colonies to the countries which are thought to be the cradles of cooperatives. Much of the diffusion happened through various types of transfers of policy and/or legislation. This, together with other isomorphic trends, led to a general search for criteria and mechanisms by which to identify genuine cooperatives in a global world where cooperatives as enterprises have to operate under the same competitive conditions as other enterprise types and need adopting new structures which might hitherto have disqualified them from being considered as cooperatives, for example multi-stakeholder cooperatives, cooperative groups, hybrids, brain worker cooperatives. Presentations by representatives of the UN and the ILO underlined the trend towards seeing cooperatives as a type of enterprise, independently of its activity, national embedment etc.. Also to mention six presentations in this Working Group on cooperative law. A novelty in the ICA research history.

The “Shared leadership and membership communities” Working Group (No.3) found common ground in a definition of “shared leadership” as opposed to single person leadership on which most researchers concentrated so far: “Shared leadership is a process where different individuals’ complementary competences meet to deliver better decisions”. This additional focus were necessary because of globalization and the rapid change in business environment which made it difficult for one person to come up with good quality decisions. The group then related this definition to cooperatives which, traditionally, have been democratically structured self-help organizations. The need for entrepreneurship education, media and other institutional practices to take these issues on board was emphasized. The discussions also developed arguments against and in favor of shared leadership and concluded that more research, especially on questions of responsibility and hierarchy were needed.

On the question of membership communities the group identified two main factors hindering the development of new cooperatives: Legislative shortcomings and poor public knowledge on cooperatives. A crucial question for the current debate on Corporate Social Responsibility (CSR) were the delimitation of the “beneficiaries” of CSR action, the members or all stakeholders?

Working Group No.4 discussed “The green economy and cooperative societies”. They regretted that only one paper dealt with cooperatives as enterprises which lend themselves to sustainable economic activity. Most others focused on elements related to food production in its widest sense: agricultural land management, certification schemes and green jobs. Community renewable energy projects were also presented, as was the problem of adequate legal frameworks.

Working Group No.5 dealt with “Multidisciplinary teaching and research on co-operatives”. It seems to have been the group which succeeded in bringing together researchers and practitioners, almost all also involved themselves in teaching. Taking the 5<sup>th</sup> ICA principle on education, training and information as a starting point, the presenters converged in their finding that teaching the subject of cooperatives is crucial and the lack of it is ubiquitous. The group also discussed who should take the lead, which groups to target and through which means. They wished that interest in the subject does not stop once crises are over. Presentations on attempts to improve data and statistics on cooperatives underpinned the need to see education within the trias of research, education and training. This also means that beyond cooperative specific education and training, the subject needs mainstreaming in education in general.

The reported outcome of the discussions in Working Group No. 6 on “Innovative cooperative solutions” was a graph which reflects in a succinct manner the new context in which cooperatives will (have to) evolve. A context which is global, where behind the role/the position of the state the group put a question mark and where everything else – tools, norms, societal context, partnerships, networks, and contents are new as compared to the ones which might have determined cooperatives in the past and which are still widely being portrayed as valid.

Besides bringing researchers together, one of the aims was to bring them and practitioners together. Roughly one half of the Conference participants went to visit a number of cooperatives in Tampere on the third day. Dr. Niina Immonen had thoughtfully designed these visits. In part they made good for the difficulty of organizing a dialogue between researchers and practitioners.

The conference had also been announced as debating solutions to the current economic and social problems. The choice of the theme, the findings presented, as well as the variety of disciplines and approaches contributed to delivering on this promise.

The Conference allowed for many contacts to renew and reinforce. New contacts were created. This is a positive outcome in itself in times when research on cooperatives is still a matter of personal interest and perseverance.

The result of the Conference was summarized by Professor Siiskonen with her suggestion for an even better overall theme: “New co-operatives: opportunities for people”. This summary inspired the editors to rephrase the overall Conference theme and suggest it as title of this publication: “New Opportunities for Co-operatives: New Opportunities for People”.

The Conference produced an amount of material which is impossible to publish in its entirety. After consultations with the members of the Scientific Committee of the Conference and with the leaders of the Working Groups (track leaders) the editors had to make a choice.

Any choice is arbitrary. The closest we can get to justify it in an objective way is by giving the reasoning behind it: Not the least out of loyalty to the aims set for the Conference we tried to balance between scientific papers, reflections by practitioners, between geographical regions, sectors, disciplines and between the Working Groups. As a result, the attribution of the contributions changed, as did the subthemes of the Conference which the Working Groups represented.

The selected papers are presented in five thematic chapters and one concluding chapter.

1. “The idea of co-operatives, its history and journey throughout the world”;
2. “Co-operative management, other organizational issues and legal frameworks”;

3. “Co-operative financial institutions”;
4. “Sustainable development and co-operatives”;
5. “Social enterprises”;
6. “Where to go from here. Concluding remarks”.

Chapter 1 is to set the scene for the global phenomenon of cooperatives in a global world. Chapter 2 deals with central challenges for any type of enterprise, including cooperatives. Chapter 3 depicts a specific type of cooperative, financial, which has a track record of being competitive and resilient to crises. Chapter 4 addresses the overarching general development paradigm of sustainable development, presents concrete examples and stresses the need for adapted education. By situating the debate in the wider, rather political framework, it opens the discussion and leads to the following chapter. Chapter 5 embeds cooperatives in the wider notion of the social economy and sheds light on new forms prompted by a rapidly changed perception of the role of government. Chapter 6 brings it all together.

Apart from slight editorial harmonization, the contributions are published in the form the authors submitted them. In the editors’ judgment this allows to maintain the variety underlying the selection. The views expressed are solely those of the authors.

In the name of the editors I wish to thank all those who have contributed to this publication: The authors, the members of the Scientific Committee of the Conference, the track leaders, the sponsors of the Conference, the colleagues at the Ruralia Institute, especially Jaana Huhtala and Antti Nenonen, and, last but not least, the Directorate of the Institute, Professor Sami Kurki and Professor Pirjo Siiskonen.

# NEW OPPORTUNITIES FOR COOPERATIVES IN THE CHANGING LANDSCAPE OF THE WELFARE SYSTEMS

BORZAGA, CARLO, PROFESSOR, EURICSE/UNIVERSITY OF TRENTO, TRENTO, ITALY

GALERA, GIULIA, EURICSE, TRENTO, ITALY

## 1. INTRODUCTION

Since their early establishment, cooperatives and mutuals have been not simply economic institutions, but rather organizations explicitly committed to addressing social problems affecting local communities or groups of people in need through the creation of jobs and the delivery of services. For a long time cooperatives have been important actors of local welfare systems. Among the activities undertaken, the delivery of health and retirement insurance services, credit services, consumer services, and social-personal-and community services by co-operatives has always been vital for a significant number of local communities. However, over the years, starting from the beginning of the 20<sup>th</sup> century, the role of cooperatives has changed dramatically. This has occurred across countries following dissimilar patterns depending on the country.

In Western countries, the public universalistic welfare systems that were established during the 20<sup>th</sup> century were strongly inspired by the experience accumulated by cooperatives at the local level. Many public welfare policies were established thanks to pioneering innovation and experimentation by cooperatives. Key welfare institutions were originally developed by mutual aid and cooperative societies, and they were subsequently incorporated or adopted by national governments. Most insurance, educational, social and health services were indeed taken on by government authorities as part of the process of constructing European welfare states. Thus, these services were removed from cooperative and mutual control and the role of cooperatives and mutuals as welfare actors was downsized. However, this situation changed gradually when the welfare regimes started to show the first

symptoms of crisis. Since the 1970s, despite the relevant and growing amount of resources spent, the welfare states have increasingly proved unable to cope with the emerging new needs and the growing problems of inequalities and poverty, on the one hand, and passive and opportunistic behaviours on the part of recipients, on the other hand.

Particularly noteworthy is the increasing inability of many welfare systems to meet the growing and increasingly diversified demand for social services. The universalistic coverage and democratic egalitarianism associated with the implementation of modern welfare states overlooked diversities in demand and the increasing rigidity of public institutions resulted in the suffocation of individual action and freedom. The bureaucratic approach of public welfare institutions was coupled with a scarce, if not inexistent, role for user-participation (Evers, 1998). Welfare services were not designed in order to induce recipients to help themselves, as they tended to generate dependency upon the public aid granted (Giddens, 2007).

Extensive reforms were adopted by the European welfare states to overcome these limitations. These included the adoption by public institutions of private managerial models, the implementation of decentralization policies, and the privatization of service provision. Nevertheless, the reforms introduced have largely failed to achieve satisfactory outcomes (Oecd, 2009). Social exclusion became a widespread phenomenon, contributing to a generalized legitimacy crisis of the western welfare state.

This unsatisfactory situation stimulated the search for alternatives and especially in some Western countries paved the way for the revival of civil society organizations and cooperative enterprises as key welfare actors of local welfare systems. New

concepts – *social cooperative and social enterprise* – were developed to portray these new trends to distinguish organizations explicitly conceived to pursue social goals in an entrepreneurial way.

In Eastern countries, and especially in Central Eastern Europe, cooperatives witnessed an expansion similar to the one followed in Western countries before the takeover of the Soviet regimes. However, the Soviet regimes dramatically downsized and transformed cooperatives and non-profit organizations into quasi public organizations. By the end of the 1980s when the existing welfare states almost collapsed following the replacement of the old regime with its virtual opposite – “a full fledged market economy and democracy” (Norgaard, 2000) – real cooperatives were almost non-existent or seen as part of the State organization. As a result, in the first phase of transition, both the newly established governments and public opinions opposed cooperatives, considering them as part of the “inherited” social and economic structure. The ideal model to strive for became a free market economy where the only accepted civil society organisations were traditional philanthropic initiatives (e.g. foundations), but not cooperatives. Also the transformation of the previously State-owned enterprises into investor-owned enterprises was preferred over the recognition of the potential of cooperatives. The literature on economic reform was in general critical of the potential role of employee ownership in enterprise restructuring (FritzRoy, et al, 1998). As a result, in the process of reforming the welfare systems, which are to a large extent still under construction, the potential of cooperatives was largely underestimated. This notwithstanding, in many countries of the region cooperatives in traditional and new fields are now spontaneously re-emerging to fill gaps in service delivery and meet new needs arising in society. Although they are not at all or are very minimally supported by public policy, these new initiatives are attracting an increasing interest.

Cooperatives and mutuals have also been developing in countries with weak or almost non-existent public welfare systems, such as developing countries, where cooperatives providing social and community services play an important role even though they are often not institutionalized nor even acknowledged by law (Münkner, 2012). Overall, the social and economic impact of such organizations has been considered rather marginal. Donors’ aid programmes aimed at improving the social protection system have mainly relied on traditional non-profit organisations (NGOs). Nevertheless, donors’

externally driven actions have generally failed. These programmes have not succeeded either in sustaining the creation of universalistic public welfare systems, or in the promotion of private socially oriented providers like cooperatives. However, the development of an effective social protection system is currently more necessary than ever.

To summarize, what is becoming clear is that, on the one hand, there is a need to downsize the existing western public welfare systems despite the dramatic growth of new needs. On the other hand, countries that are not equipped with public welfare systems, such as developing and Central Eastern European countries, are increasingly unable to develop public welfare institutions, due to the shortage of resources they have to face under current conditions of globalized competitive markets. Overall, the conditions faced by all these countries differ strongly from the ones distinguishing the European protected markets of the 1950s-1970s. Against this backdrop, an overall reconsideration of the role of cooperatives together with the definition of a new pluralistic and open welfare model becomes of utmost importance.

This paper attempts to corroborate the above mentioned statements. Furthermore, it aims to both demonstrate the real potential of cooperatives in both restructuring and building welfare systems and explain how this potential can be released.

Following a brief introduction on the potential ability of cooperatives to deliver social services in contemporary welfare systems, which was firstly pointed out by Alexander Laidlaw in 1980, the article analyzes the Italian experience of social cooperatives from a comparative perspective (section 3). Next, attention is paid to the main characteristics of social welfare systems in Western countries: section 4 sheds light on the limitations of the reforms so far adopted; section 5 provides a tentative explanation of the failure of the dominant socio-economic paradigm behind the Western welfare model and the limitations of its underpinning principles. These include the principles of self-interest, accumulation, and the rationality of the state, which are blamed by the authors for having prevented an extensive reform of the welfare systems. Subsequently, the article, while providing a synthetic overview of recent policy initiatives assigning an active role to civil society actors, suggests that a clear role ought to be designed for cooperative and social enterprises in the frame of a more pluralistic and open welfare system. To this end, the specific structural features shown by cooperatives are described and

three areas of intervention where cooperatives and similar organizations are expected to expand over the next years are identified. These include the provision of personal and proximity services, economic general interest services, and insurance coverage. Although this article mainly draws on the experience accumulated by Western countries, the analysis is extendable also to the other countries willing to build or strengthen their welfare systems.

## 2. COOPERATIVES AND THE SUPPLY OF SOCIAL SERVICES

The potential of cooperatives in the delivery of social services was firstly pointed out by Alexander Laidlaw in the year 1980 at the ICA Conference in Moscow. At the time the global cooperative movement was experiencing a crisis as it tried to maintain its distinctiveness from the private sector and as it struggled in many countries to escape the dominating influence of the State., Laidlaw emphasized the evolving character of the cooperative form. In particular, he highlighted the ability of cooperatives to encounter new needs arising in society: hence he shed light on the new spaces of action opened up by the various difficulties faced by the welfare systems worldwide. Interestingly, Laidlaw acknowledged cooperatives' role as welfare providers, and in particular their commitment in supplying general-interest services and facilitating the work integration of people that are at risk of being excluded from the traditional labour market, when their role as welfare providers was almost insignificant. Indeed, at the time when Laidlaw gave his speech, few cooperatives were operating in such fields and they could be regarded as pioneering initiatives. In the following years cooperatives have actually emerged and expanded in the fields of activity predicted by Laidlaw.

However, cooperatives have not always proven to be able to exploit the new challenges and opportunities offered by the political, economic and social transformations occurred over the last decades. An international, albeit rough, comparison corroborates that cooperatives have managed to seize the opportunities offered by the transformation of the welfare systems only in some countries which were distinguished by specific conditions in terms of demand for and supply of social services.

From a demand-side perspective, cooperatives experienced revitalization in the welfare service sector mainly in countries where the public produc-

tion of these services was limited and the welfare systems were more oriented towards re-distributing resources rather than supplying social services. The renaissance of cooperatives in the provision of welfare services occurred also in countries where contracting out strategies have been tailored for this type of enterprise or where they were at least not explicitly excluded from participating.

From a supply-side perspective, cooperatives flourished in countries where not-for-profit organizations other than cooperatives (especially associations and foundations) were weak, less developed, and either not managing or not allowed to manage economic activities in a stable and continuous manner. Furthermore, to be mentioned are also countries where cooperatives were already well consolidated and not only their economic role, but also their social function, was acknowledged by law. In such cases, cooperatives have frequently taken up the challenge of meeting new social needs, thus re-directing themselves towards a "social enterprise-social cooperative" model.

Having said this, the expansion of cooperatives into new fields of activity has been particularly significant in some countries and almost absent in others, and such development has occurred at different times. Whereas in some cases cooperatives dominate the delivery of social services, in others they compete with other organizational forms, which control most of the supply. In some countries, over the years other not-for-profit organizations have gone through a transformation (e.g. associations have become more entrepreneurial), which has contributed making them more similar to cooperatives, thereby to approximating their nature to the one of cooperatives and has opposed the diffusion of the latter.

Laidlaw's advice was mainly followed and implemented by the cooperative movements of a number of EU countries. In this respect, the Italian experience of social cooperatives helps to shed light on the potential of the cooperative model in the delivery of welfare services. As highlighted in the next paragraph, Italy is an interesting case in point, since all the conditions described above can be found.

### 3. THE EVOLUTION OF THE COOPERATIVE FORM: THE ITALIAN CASE FROM AN INTERNATIONAL PERSPECTIVE

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When in the 1970s the Italian welfare system started to face the first symptoms of financial crisis, both the public and private supply of social and personal services was limited, mainly public, standardized and poorly managed. Excepting the provision of health and education services, most public spending was allocated in the form of cash benefits (mainly pensions).

Not-for-profit organizations – associations and foundations – were legally prevented from carrying out economic activities in a stable and continuous manner. Given these legal constraints, when new needs started to arise and grow intensively, several spontaneous groups of citizens that voluntarily committed themselves to provide social services chose to institutionalize their activity through the cooperative form. However, since cooperatives were formally considered only member-interest oriented, their use for providing social services to people in need was not simple. Noteworthy is that with the support of part of the cooperative movement these new cooperatives succeeded in establishing a national federation and several local consortia in just a few years.

All this contributed to paving the way for the bottom-up development of a new cooperative form specialized in the provision of social, educational, and work integration services. This new cooperative form was acknowledged by law in 1991 as a “social cooperative”, when at least two thousand of these cooperatives already existed. This was the beginning of an extraordinary period of growth, which was significantly supported by the ability of cooperatives to increasingly attract public resources, made available by local authorities willing to broaden the supply of social services. Over the years, social cooperatives have dramatically increased in number at an annual rate ranging from 10 to 20%. In 2008, there were about 14,000 social cooperatives, accounting for more than 350,000 workers, at least 40,000 of which were facing difficulties in entering the traditional labour market, benefiting 5 million users and generating 10 billion Euros of turnover. Starting from the early 1980s and continuing over a period of 30 years, this type of cooperative has grown into the main producer of welfare services in Italy.

The experience of Italy is probably the most emblematic confirmation of Laidlaw’s intuition about the evolving character of the cooperative form; however, similar paths of development were followed also by other countries, both in Europe and elsewhere. The legal acknowledgement of the social commitment of cooperatives took place in – among other countries – Portugal, Spain, France, Poland, Hungary, Korea, and Greece (Borzaga and Galera, 2009).

Nevertheless, none of these countries has shown a development of cooperatives as significant as the one registered in Italy. When compared to the Italian case, a number of differences can be noticed. They concern:

1. the fields of engagement of cooperatives: the legislation of a number of countries allows for the development of socially oriented cooperatives exclusively in specific fields, namely only in facilitating the setting up of work integration initiatives (e.g. Spain, Poland, Hungary) or in delivering specific community services (e.g. child-care services in Sweden);
2. the design of the contracting out process for providing social services: in some countries this process has explicitly favoured enterprises or organizations other than cooperatives (e.g. for-profit enterprises in the United Kingdom and associations in France and Belgium);
3. the commitment of cooperative movements: cooperative movements have not always supported the development of new cooperative forms, either because they were much weaker compared to that in Italy (e.g. in post transition countries) or because cooperatives were not conceived as organizations explicitly displaying social functions (e.g. Germany and Austria).

However, the process is still in progress and the Italian experience is attracting a growing interest.

Over the last few years the interest in cooperatives and social enterprises by national governments and supranational institutions has increased. Noteworthy is the Social Business Initiative delivered by the European Commission whereby the Commission wants to contribute to the creation of a favourable environment for the development of social enterprises in Europe. This renewed interest in social cooperatives and similar organizations can open up new areas of development and justifies a general reflection, which goes beyond the Italian case, starting from a critical analysis of the philosophy embedded in the welfare models and in the reforms implemented so far.

## 4. INTERPRETING THE DEVELOPMENT OF SOCIAL COOPERATIVES' DEVELOPMENT

Since most social services supplied by cooperatives are directed toward people in need, public authorities support them significantly. This is true in many countries, including Italy. Such a circumstance leads many commentators to question the original and innovative character of the cooperative model and to wrongly consider it as an externally-directed trend. The same commentators claim that the loss of public support will significantly contribute to downsizing the role played by cooperatives. The decrease in the public demand for social services is expected to limit the development of cooperatives in the welfare sector.

However these interpretations are misleading as is confirmed by the history and the data available.

The history of Italian social cooperatives corroborates indeed that the first cooperative initiatives supplying welfare services developed spontaneously, with no or very little support by public authorities. These experiences played a role in raising the awareness of public authorities about the importance of specific economic and social issues that had been so far largely ignored or underestimated.

Furthermore, it should be noted that when cooperatives enjoy public support, they are generally not entirely funded by public subsidies; on the contrary, they manage to recover resources from private sources, increasing thus the amount of resources allocated for social service delivery. This is especially the case of work integration social cooperatives, whose public funding in Italy amounts to less than 50%.

In addition to the mentioned data, some general considerations contribute to assessing the consistency of the critiques described above. The questioning of the growth of cooperatives is based on two questionable assumptions, namely that: i) the private demand for social services is non-existent or marginal, given the limited purchasing ability of needy users; hence the demand is fully determined by the public resources available; ii) the supply of social services cannot be organized according to entrepreneurial logics, given the natural predominance of owners' rather than users' interests.

Both assumptions described above have so far dominated social science thinking and policy debates and they have significantly influenced the welfare state model and its subsequent reforms.

However, they appear to be no longer sustainable and they call for an innovative interpretative framework of the economic and welfare systems that can also help explain the current crisis.

Since the 1970s and up to the crisis of year 2007, national governments have implemented several reforms to overcome the difficulties faced by welfare systems. They have made administrations more responsible through the decentralization of public competencies to lower levels of government; they have attempted to limit opportunistic behaviours on the part of recipients through the imposition of more bounding requirements; they have tried to reduce the public production costs of social services through contracting out the production of social services to private providers. The concept of "welfare mix" was increasingly used to emphasize the outcome of the reforms adopted, as they were expected to contribute to institutional plurality and shared responsibility of welfare (Gonzales, 2007). However, despite its innovative nature, the welfare mix approach did not question the validity of the above described principles.

Overall, the reforms have failed to lead to adequate results. The failure of such interventions is particularly evident when looking at the attempt to create a welfare mix through the privatization process, which mainly provided for a separation of the funding and production roles and for the creation of quasi-markets in the sector of welfare services.

According to a recent report delivered by the Oede (2009): "the privatization experience supported by the theory of public management has not always produced efficient outcomes". The report indicates that in Oede countries employment in the public sector has not increased over the last years and the relative cost of public employment income in GDP has consequently decreased. Nevertheless, the cost of public services has not decreased, as the transaction costs incurred by the public sector for the provision of services by the private sector has shown to be increasingly expensive. Eurobarometers surveys on customer satisfaction following privatizations bring further evidence that, although the price factor has been effective in some sectors like telecommunications, the picture is less rosy in other sectors and for the most modest consumers.

The reasons explaining this failure are diverse depending on the sector and country referred to. However, it appears self-evident that, especially in the field of social, health and educational services, the unsuccessful outcome of the reforms can be ascribed to the increase in transaction costs - especially for contracting and monitoring - that are related to the privatization and management mo-

dalities implemented. Firstly, public administrations continue to maintain a key role in planning and designing the provision of services in the welfare service sector, thus increasing the cost of the contracting out procedure and the rigidity of the organizational model implemented by the contracted organizations. Secondly, monitoring the providers' compliance with contracts, especially in the case of for-profit enterprises, ended up being extremely problematic. This is especially true with respect to the monitoring of quality and user satisfaction.

All these factors at play prevented contracted organizations from maximizing efficiency and generated contradictory effects, including the decrease in quality of the services delivered. As a result, the implementation of the welfare mix through the contracting out of service provision ended up being much more costly than expected.

Overall, the welfare mix approach has failed to appreciate the depth of organizational variation within each sector and it has obscured the social and political relevance of reforms. Indeed, not-for-profit organizations and social cooperatives were simplistically interpreted as derivative institutions in competition with the public and private sectors (Gonzales, 2007).

The same problems are becoming more evident with the current crisis that clearly worsened and will worsen the difficulties of the welfare models that had been inherited over the previous years. In many countries the crisis has been responsible for increasing both the public deficits and the demand for welfare interventions.

The increase of public deficits and debts has exacerbated in turn the exposure to international speculation (also given the lack of financial sector reform) and it has made it unavoidable to reduce public expenditure, including as pertains to the costs of welfare services. The growth of the demand for welfare interventions (both as cash benefits and services) has been generated by both the increase in unemployment and number of low income people (especially youth).

These dynamics, in addition to structural changes, such as the ageing of population, the growing participation of women in the labour market, and immigration, will increase the tension between the growing demand for and decreasing supply of welfare services (especially social, health, and educational). This tension is expected to concern both the quantity supplied and asked for and the quality of the same services, as a result of the growing differentiation of needs arising in society, which clearly clash with the service standardiza-

tion characterizing the public supply of social services. And it will involve countries with developed welfare systems as well as countries with weak or under construction welfare systems.

Against this backdrop, it is important to review the philosophy embedded in the mainstream model.

## 5. ANALYSING THE CRISIS OF THE DOMINANT SOCIO-ECONOMIC MODEL: A TENTATIVE EXPLANATION

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To fully understand both the crises of the welfare model established in the 20<sup>th</sup> century and the failure of its reforms, it is essential to analyze in-depth the principles that have inspired its economic and social architecture. This model is entrusted only to two main actors with the power of deciding what, how much, and how to produce the goods and services required to ensure the well-being of society (for-profit enterprises, improperly defined "the market", and public authorities referred to as the "State") and it relied only on two coordination mechanisms: market and authority. Accordingly, other coordination mechanisms (like cooperation and consensus) and the related organizational and entrepreneurial forms were regarded as marginal and transitory. The specificity of organizations based on these alternative mechanisms was not and continues not to be recognized despite their growth in importance over the last two decades.

Consistently with the dominant approach, the reforms implemented in the last thirty years were mainly designed to shift the tasks and related activities from state to market (for-profit organizations). However, entrusting just to the market has proved to be insufficient owing to the idea that the only private form that could be involved was the for-profit and the limited freedom given to private providers by contracting-out regulations. What was not recognized is the need for a pluralistic supply and in particular the ability of cooperatives to autonomously identify needs and find new production solutions through organizational modalities other than those characterizing authority and market. Furthermore, what was undermined is the ability of cooperatives to operate according to logics other than those driving the activity of for-profit enterprises, which can in turn attenuate free-riding problems and the predominance of self-interest. What was not recognized is the possibility

to rely on cooperatives for both the organization of services in an entrepreneurial way and the recovery of private demand, which in turn would have ensured a cost reduction and a better attention to users' needs by reducing the need for strict controls against opportunistic behaviours.

Having said this, the potential of cooperatives was thus not fully exploited and their additional (and not simply substitutive) contribution to the construction of the supply of welfare and general-interest services was to a significant extent lost.

To overcome the difficulties of the welfare mix and fully understand the potential of cooperatives, the validity of the predominant socio-economic model and its founding principles must also be questioned.

The founding principles that are embedded in this model include the principle of self-interest; the principle of accumulation; and the principle of rationality of the state. All three principles show a number of limitations.

The principle of self-interest is expected to govern the actions of all individuals and enterprises, independently from their goals, ownership structures, and constraints. Indeed the majority of public and private institutions, as well as incentive structures inside the firms, are conceived to enhance self-interest. The main limit of this approach is that it overlooks both the ability of people to cooperate spontaneously to carry out general interest activities and the relevance of intrinsic motivations in influencing individual choices, including work and entrepreneurial activities. As a result of the predominance of this principle, opportunism has reached an almost unbearable size, which has paved the way for consumerism and forms of possessive individualism. Only small countries, distinguished by strong social cohesion have managed to keep costs generated by opportunistic behaviours under control. Furthermore, a growing amount of available resources – especially human resources – tends to be used in an increasingly less efficient way.

According to the principle of accumulation, wellbeing and social progress are determined by GDP growth, which is in turn influenced by the rapidity and strength of accumulation. This principle induces investments only in activities that ensure the highest possible return, leading thus to an economic model, which is increasingly unable to ensure the production of all goods and services requested by citizens. The main goal of accumulation – as the driving principle of all economic activities – coupled with the growing difficulties faced by the public welfare systems have given rise to a paradoxical situation: despite the increase of resources

used, including non-renewable ones, many basic needs of a large part of the population are not met. As a result, while income grows on the one hand, satisfaction for living conditions (or happiness) does not improve, on the other.

The principle of rationality of the state and its exclusive entitlement to guarantee the wellbeing of its citizenry has so far dominated policy thinking. This principle implies that the State is the exclusive actor that is able to identify needs that cannot be met by the market. Accordingly, the State is expected to adopt adequate regulations and impose taxes in order to raise the resources required to secure the provision of all the welfare services demanded by the population. Evidence from recent history shows that this has not been the case. Many welfare measures have proven to be rather irrational; welfare agencies have often been unable to identify needs; production costs of the services supplied by public institutions have proven to be rather high; and it has become apparent that opportunistic behaviours can hardly be kept under control. Some countries have managed to deal with such problems better than others. However, the above mentioned problems are shared by all types of welfare states to various extents. Differently from what has been claimed by theorists of the bi-polar model, its costs have reached high levels so far.

The uncritical trust in the combination of the above described principles has also affected the reforms and it has so far prevented a substantial transformation of the welfare system. In short, the reforms adopted have indeed limited themselves to move activities from one sector to the other, without generating substantial improvements. Surprisingly, reforming measures have succeeded only in countries like Italy, where they had not been previously planned.

## 6. DESIGNING A NEW ROLE FOR COOPERATIVES

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The large majority of policy-makers, practitioners, and social scientists still fail to understand that the failure of the reforms is ascribable to the limitations of the existing welfare model and that the only viable solution is an enlargement of welfare actors pursuing different aims and relying on different principles. However, some new policy thinking, which questions the viability of the dominant economic and welfare model and suggests that an active role be assigned to new actors populating the civil society, is emerging.

This is the case, for example, of the “Big Society” initiative proposed by Cameron, which attempts to go beyond the previous experience of privatization based on quasi-markets with competing providers (possibly for-profit). To face the crisis of the dominant model, Cameron’s recipe is centred around three key-words: pluralism (also of producers); local dimension (production has to be closer to real needs) and volunteerism to recover the capacity of cooperating, as well as intrinsic motivations). As such, his proposal strongly relies on the mobilization and empowerment of civil society.

Furthermore, the discussion in the frame of the EU Commission about recognizing and supporting social entrepreneurship and social innovation for achieving a more “social market” aims at widening the concept of social innovation and recognizing the contribution of new economic actors that are characterized by explicit social goals. This is a dramatic change if one considers the liberal approach which was incorporated by the Lisbon programme that completely ignored the role played by not-for-profit enterprises. The theorists of the “shared value” (Porter, Kramer, 2011) are moving in a similar direction.

All these initiatives and proposals seem eager to acknowledge the role of private actors other than for-profit enterprises, paving the way for a more effective exploitation of entrepreneurial initiatives which are part of a social project, like cooperatives and social enterprises.

There are some reasons explaining the recent change of attitude of policy-makers, practitioners, and social scientists towards cooperatives and similar organizations. The first reason is that cooperatives and mutuals have proven not only to be more efficient and effective in providing welfare services, but also to be better equipped to face the crisis. Nevertheless, a more exhaustive interpretation is that policy-makers, practitioners, and social scientists are increasingly realizing that –under precise conditions– cooperatives and mutuals show specific competitive advantages when compared to public and for-profit enterprises that explain their higher efficiency in providing specific types of services and their stronger resilience in times of crisis.

Indeed, cooperatives start to be recognized as having a number of structural features that distinguish them from public and for-profit actors. These characteristics have a role precisely in overcoming the limits of public, for-profit, and philanthropic providers.

First, cooperatives are entrepreneurial forms, which are created, owned, and managed by people interested in producing goods or services that

meet specific needs; when dealing with cooperatives the accumulation of capital is the tool, not the goal. Cooperatives produce what members need and not simply what is expected to generate monetary gains. As a result, cooperatives can perform also under conditions of low or null profitability, when for-profit enterprises would not be interested in engaging. Given their not-for-profit goals, cooperatives can manage to channel private resources towards the pursuit of welfare goals, not simply in the interest of their members but also in that of the entire community. As a result, they can contribute to developing new production models that are effective in delivering goods and services also generating positive externalities.

Second, cooperatives generally involve a plurality of people sharing the same needs, thus taking advantage of cooperation instead of competition; when compared to conventional enterprises and relations based on market exchanges, cooperatives can better exploit the ability of people to cooperate and share the benefits of cooperation also with external agents. All this allows for a reduction of opportunistic behaviours and related costs on the basis of three main reasons: (i) the decision to participate in the enterprise is mainly determined by the expected outcome generated by the economic activity rather than monetary gain, (ii) possible opportunistic behaviours and related damages are visible to all participants, who have access to relevant information about the performance of the enterprise; (iii) peer monitoring is natural and free of charge.

Third, cooperative participation is normally driven by the interest in the type of activity performed rather than monetary gains. Contrary to enterprises that are created and managed starting from the assumption that both participation and the degree of effort depend on monetary gains, cooperatives can rely also on intrinsic motivations that are generated by the interest in the activity *per se* and in its expected outcomes. Intrinsic motivations can ensure higher efficiency levels because they reduce the need to make recourse to monetary incentives for workers and funders (Borzaga and Tortia, 2006) and can have a role in reducing opportunistic behaviours on the part of users thanks to their involvement as co-producers of social services (Pestoff, 2008). This advantage is especially important in the production of welfare services, where the control of monetary costs can help face the growing demand for welfare services. Furthermore, the quality of welfare services, which are characterized by a strong relational dimension, is determined by behaviours that cannot be eas-

ily monitored, nor supported through monetary incentives; hence emerges the crucial importance of intrinsic motivations not only for Western countries but also for countries that are characterized by welfare systems that are weak and under construction.

The spread of cooperatives in the welfare sector can therefore be ascribed to the above described factors rather than to the widespread implementation of contracting out schemes by public authorities. Noteworthy is that in countries like Italy, where a solid cooperative sector managed to develop in the welfare sector, for-profit enterprises have not entered the market.

## 7. DEVELOPMENT PROSPECTS FOR COOPERATIVES

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Social services and work integration of people at risk of labour exclusion are at the moment the main new fields of engagement of many cooperatives and especially of social cooperatives. However, given their intrinsic characteristics, they are suited to develop also in many other areas that are of general interest.

The current crisis is expected to reduce the role of the State even further, not only as producer of general-interest services but also as insurer against the risks of age and sickness; hence emerges the new roles that cooperatives could play following the withdrawal of basic public services, at least in three directions, namely the production of: personal and proximity services; economic general-interest services; and insurance coverage.

Cooperatives can contribute to expand the supply of many personal and proximity services which are undersupplied and they can have a role in differentiating the standardized supply of services, which characterizes public agencies. The educational sector, in addition to social services sector is a case in point, in light of the growing budget constraints and differentiated demand for a specialized education. Furthermore, cooperatives can deliver other personal services, like cultural and some recreational, that for-profit enterprises are not interested in providing given their low and unpredictable profitability.

Similarly, the provision of general-interest and community services is an additional challenging area of engagement for cooperatives. Community and general-interest services supplied by cooperatives include water resources, waste disposal, public transportation and renewable sources of

energy. Interesting initiatives in this area exist in Europe, the United States and Latin America. However, most of these services in Western and Central-Eastern European countries have been so far mainly delivered by public agencies and in developing countries they are not provided at all. The privatization process still in progress in many countries paves the way for the development of organizations – like cooperatives – that can directly involve the users of the same services.

As for insurance coverage, a revival of mutuals against current and future risks, in addition to the risks already ensured by public institutions is conceivable. Both new basic and integrative insurance services could be supplied by mutual-aid-societies to provide common insurance and assistance to workers and communities.

However this revival and further enhancement of cooperatives towards the pursuit of general interest goals cannot be taken for granted. Indeed, cooperatives have for a long time imitated the organizational and management models adopted by for-profit firms. This widespread practice has often prevented cooperatives from exploiting their key advantages, especially those resulting from the strong and active engagement of members.

Against the background of expanding in new fields of interest to local communities' welfare – as suggested by Laidlaw and operationalized by some national experiences – cooperatives need to develop new management and governance models that are more consistent with their nature. In particular, in order to exploit the above described opportunities, cooperatives need to pursue three main strategies: i) improve knowledge and reputation of the cooperative model; ii) innovate their organizational modalities; iii) design management and governance practices that are consistent with cooperatives' ownership characteristics rather than replicate management styles and models characterizing for-profit enterprises.

Cooperatives need to improve their reputation: the cooperative movement should commit itself to promote the cooperative model worldwide; research should be supported and its findings disseminated widely; the cooperative movement should actively participate in the political economy debate not simply to protect contingent advantage, but rather to contribute to reforming the predominant model. The voice of cooperatives should be heard especially when proposals of structural transformations of the socio-economic model are discussed in public debates.

To expand their fields of activity, cooperatives have to revise their organizational modalities. To

enter new markets, which will be freed by the withdrawal of the State, they have to develop organized responses that can help meet new unfulfilled needs arising in society. To achieve this goal, cooperatives could become more inclusive and facilitate the involvement also of non traditional stakeholders representative of the community and sometimes of a plurality of stakeholders in their membership and governing bodies (according to a multi-stakeholder model).

The design of management and governance modalities that are consistent with the ownership characteristics of cooperatives is a condition for the full exploitation of their competitive advantages. The modalities of taking decisions, designing transactions with members and the community, structuring an adequate incentive system (which can fully exploit intrinsic motivations rather than relying simply on monetary incentives like for-profit enterprises), deciding how to use the surplus (asset locks can facilitate the adoption of long-term perspectives, which enhance trust and reputation) need to reflect the specificity of these entrepreneurial forms. Accordingly, also public policies should be reformed and more support rather than direction should be ensured to cooperative and similar organizations.

## 8. CONCLUSIONS

To fully understand the role of cooperatives in contemporary societies, a new paradigm offering an alternative understanding of the welfare systems and the socio-economic model needs to be developed. Evidence from cross country analyses confirms that the development of a more pluralistic and open system can offer the potential for providing more effective responses to social exclusion and economic dependency under the current conditions of diminishing public resources, demographic changes and increasing ethnic and cultural diversity. In short, to exit the crisis, it is necessary to move beyond conventional understandings of market values and interests and social values and interests as inherently conflicting (Gonzales, 2007).

Under the new proposed paradigm, rather than being regarded as a product of incomplete welfare development, cooperatives and social ought to be looked upon as innovative and autonomous actors within an emerging pluralistic and open socio-economic model.

The construction of inclusive welfare systems populated by a plurality of welfare actors, including traditional cooperatives, social cooperatives

and similar organisations, seems the more viable strategy for both existing public welfare systems that have proven to be economically unsustainable and countries that are not equipped with public welfare systems and that will not be able to develop them.

Moreover, the contribution of cooperative goes beyond the provision of general-interest services that public agencies and for-profit enterprises fail to deliver. They can support a more balanced use and allocation of resources to the advantage of the community, since they directly influence on the management of economic and social development. Thanks to the wide participation by local stakeholders, cooperative and social enterprises can succeed in promoting a more inclusive society that empowers the local community in strategic decision-making. Moreover, cooperatives and social enterprises can play a crucial role in generating new jobs and they help foster social cohesion and enhance social capital, since they supply goods and services that are characterized by a high social potential that strengthens trust relations among the agents involved.

In light of cooperatives' contribution to reforming the current socio-economic model, their development is regarded as highly desirable. At the same time the development of a new paradigm that can contribute to reforming the dominant socio-economic model is expected to be rather groundbreaking. This reform process appears as increasingly unavoidable in order to prevent a generalized deterioration of well-being.

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# CO-OPERATIVE ENTREPRENEURSHIP AND THE NEW HUMANISM

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## EPILOGUE

The author of this text published in 2006 a polemic article titled *Case Competitive Economy: Indictments before Collapse*<sup>1</sup>. The article was inspired by **Raymond Diamond's** book *Collapse: How Societies Choose to Fail or Survive*<sup>2</sup>. If not wanting to make a prophecy, I was concerned about the signs of the destructive consequences of the economy and society caused by the greedy profit hunting model of the homo economicus adopted by business elite and connected with the uncritical belief on the scientific-technical progress applied by scientists without human responsibility as well as short-sighted exploiting of the scarce resources of the earth to maintain the luxurious lifestyle - without charge - for greedy masses of the rich welfare societies. The article was closed with reference to the importance of the diversity of the entrepreneurship and the role of co-operative alternatives contributing to change the stereotypic picture of capital interests as the only model for market economy.

I would like to express special thanks to two humanistic social scientists for the idea of my recent presentation. Without any institutional links, but through personal friendship, I was able to connect my paradigm critical thoughts with an approach called *New Humanism* by my old friend **Tapio Varis**, UNESCO professor emeritus of media culture at the University of Tampere. Tapio takes part in UNESCO funded research projects, and we have discussed this theme in our traditional Finnish sauna sessions, among other themes oriented to improve the world. Another person whom I would like to mention is professor emeritus **Ian MacPherson** who organized a forum called "*Mapping co-operative studies*" during the ICA research conference held at the University of Victoria in 2003. I find important to continue the international debate to further the teaching of co-

operative studies in the universities. It is right time now to rise up the theme, connected with the International Year of Co-operatives 2012 and the importance given by UN to the academics as partners implementing activities of the IYC.

## INTRODUCTION

It is well known, that co-operatives too often have been given only marginal attention or not even been mentioned in the mainstream contents of economic and social scientific curricula. The criticism that I will put forward here will be directed above all at the environment in which co-operatives are currently expected to operate, an environment that emphasizes economic issues in their narrow meaning and competitiveness rather than co-operation and a sense of community and in which globalization features in the rhetoric of politics and economy in the guise of a state of intensified competition and hostile clashes between cultures. It is also clear that in this context economic co-operation cannot lie at the centre of the teaching in economics provided at our universities nor can it occupy any kind of prominent position as a focus of research. Behind the façade, however, this one-sided view of the reality has been subjected to increasing criticism and pressure for change. The narrow-minded assumptions of conventional economics regarding the nature of man as *homo oeconomicus*, an individual actor selfishly engaged in the pursuit of personal profit, have been called into question (see Notes 1 and 2). In the research devoted to co-operatives and social economy this broader interpretation of human nature is already quite common and conscious. These same critical views are also incorporated in the "new humanism" which I will refer to here in connection with research carried out by UNESCO. My purpose is to discuss the connections between this new humanism and co-operative entrepreneurship in the context of the globalization and in the light of experiences gained

<sup>1</sup> Köppä (2006).

<sup>2</sup> Diamond (2005).

in the teaching of co-operative studies in Finnish universities. The close connections between the furthering of co-operatives and the popular enlightenment activities with deep humanistic roots in the early 19<sup>th</sup> hundreds are referred shortly, too.

### **Globalization as an environment for growth in co-operative business activity and the new humanism**

The crises brought about by globalization that have shaken the world's economy have naturally had a corresponding effect on co-operative business activities of all kinds, but there are many examples to be found all over the world to show that co-operatives can often overcome the resulting difficulties more successfully than their competitors<sup>3</sup>. Co-operatives that possess a characteristically close bond with economic realities and the communities to which their members belong – by virtue of those communities' economic, social and cultural needs and aspirations – have also succeeded in smoothing over the resulting regional and social discrepancies. In the spirit of the age, co-operative business activity has gained a trendy image in the eyes of the younger generation and the idea of working together has led to a revival of the traditions of mutual self-help for the benefit of local communities and in the scale of the whole world innovatively through the medium of the Internet.<sup>4</sup> It is this same success that has awakened a new interest in the studies of co-operative entrepreneurship in the universities.

Is this merely a fashion, a transient case of opportunism, or is it symptomatic of a more permanent change? Does co-operative activity really have something to offer, and does it have the potential to bring about more profound changes in the fundamental ways in which people think and act? In order to recognize and become familiar with these deep-seated trends it is important – and indeed urgent at this point in time – to gain knowledge of the research traditions in social history and social philosophy that are relevant to the organization of

co-operatives.<sup>5</sup> The durable values incorporated in co-operative activity, the volume of experience generated by a long period of historical evolution and networks that have been built up, extending outwards from national to worldwide structures, conceal with them a wealth of stories, large and small, that deserve to be brought to the fore from beneath the superficial layer of hectic economic and social change.<sup>6</sup>

The co-operative idea, “co-operativism”, has not arisen as a critical alternative to mainstream economic thinking in the context of teaching in the social sciences and economics. It is therefore important that research and teaching in this field should also take place within other university disciplines, including history, jurisprudence, sociology, economic anthropology, psychology, ethnography and various methodologically based interdisciplinary areas of study. It is becoming increasingly common even in conventional economics to acknowledge the importance of community relations, and also to take account of the influence of non-economic factors on human actions. Consideration of the overall good of both individuals and communities as a matter of economy cannot be achieved, however, if maximum profits on investments are taken in a market fundamentalist sense as the only purpose of running a business and implicit faith is placed in the invisible hand of market forces as an automatic means of generating affluence.<sup>7</sup>

<sup>5</sup> An interesting perspective on human co-operative activity is opened up by **Robert Wright** in his book *Nonzero – The evolution of human cooperation*, which emphasizes the crucial importance of learning the win-win situations that exist in co-operative activity for the evolution of human civilizations towards ever more technologically sophisticated and social complex stages of development.

<sup>6</sup> The history of social economy in Finland demonstrates the applicability and continuity of the archetypes of co-operative activity in relation to different stages in history, in that its traditions have also provided a body of knowledge and growth potential to support the adoption and spread of co-operative forms of organization (Köppä 2011, *Yhteisötaalous maaseudun yrittäjyyden uusien mahdollisuuksien kasvualustana*; in English: *Social economy as a breeding ground for new opportunities for rural entrepreneurship*).

<sup>7</sup> See **Nassim Taleb's** provocative criticism regarding the difficulty of breaking free from the beliefs instilled by conventional economic theories and accepting change, as expressed in his book *Black Swan*. The consistent evidence offered by the educational pipelines turns them into tunnels from which it is impossible to escape all the time one is bound by the established modes of thinking, and to alter these modes of thinking would be inconceivable.

<sup>3</sup> Birchall, Johnston; Ketilson, Lou Hammond (2009), Resilience of the cooperative business model in times of crisis/ Johnston Birchall, Lou Hammond Ketilson ; International Labour Office, Sustainable Enterprise Programme. - Geneva: ILO.

<sup>4</sup> An ancient tradition of mutual help of this kind known as *talkoot* exists in Finland in which people gather together to do a particular job and are rewarded with food and drink and often an opportunity to enjoy the fruits of the work together, perhaps accompanied by games or dancing.

## THE UNITED NATIONS, THE NEW HUMANISM AND THE AIMS OF EDUCATION

The UN declaration of the International Year of Co-operatives 2012 and its appeal to academics to support the inclusion of co-operative studies in the national education systems tempt us to seek connections between co-operative studies and the research and discussions carried out within UNESCO on “new humanism” (Note 3). As we know, the human-centred philosophy was a broad basis for the UN from its beginning, and this mission was also introduced strongly into the UN’s organization for education, science and culture by its first director general, **Sir Julian Huxley** (who referred to it as “evolutionary humanism”). The current director general, **Irina Bokova**, regards updating of the content of this humanism to conform to the age of globalization as a new *credo* for UNESCO, as follows: “... Changes in the world call for the development of a new humanism that is not only theoretical but practical, that is not only focused on a search for values – which it must also be – but oriented towards the implementation of concrete programmes that have

tangible results”<sup>8</sup>. This goal is visible in UNESCO’s programmes, such as the recently published study of media literacy within the new humanism, which is concerned with compatibility between media education and the latest communications technology (**Pérez Tornero & Varis** 2011).

The distinguishing features of the new humanism include criticism of the overemphasis given to the scientific technological rationality and the one-dimensional image of the human being that this implies. Critical branches of research that are ready to question the basic assumptions of technology and political economy are necessary in order to renew and repair the system that directs our economy. All discussions regarding technological choices and what should be preserved within society and what renewed should start out from the notion of people’s well-being as a whole. In this world of global communications *the new humanism sets out to protect human autonomy from the dependences and intellectual subordination that threaten human consciousness*. Furthermore, the new humanism aims to increase pluralism, cultural diversity and dialogue between civilizations and seeks a true balance between individuality and joint responsibility on the part of private citizens, between their rights and their responsibilities and between conformity and complexity (**Pérez Tornero & Varis** 2011). (Note 4).

The message of the new humanism tells of a need for change comparable with the rise of the old humanism to reshape the world on the eve of the Modern Era some 500 years ago. In their research for UNESCO, **Pérez Tornero** and **Varis** describe the new humanism as a revival of the Renaissance in which science comes closer to the arts and knowledge turns a full circle from generalisation to specialization and back again to interdisciplinary and even transdisciplinary studies. The arts are concerned with the world of sensory perceptions and are grounded in a holistic view of man, so that while analytical scientific data fail to recognize individuals and societies as comprehensive entities capable of experiencing stimuli and performing actions, this can be achieved through the life and sensitivity provided by the arts. (Note 5).

In line with the researches of UNESCO, The New York Times columnist **David Brooks** attributes the failures in the economic system, in education and in the management of political crises to the excessive emphasis upon rationality that characterizes our concept of man. What we need is a thoroughgoing re-evaluation of this concept, a new humanism that advances in the forefront of the various sciences (cf. evolutionary psychology and economics, information sciences, biosciences etc). New foundations for a concept of man are being laid down all the time. Complexity studies in particular are opening up new perspectives, and new transdisciplinary information is arising in connection with the arts and the new media, for instance. Instead of individuality, Brooks lists a number of thought and action processes connected with communality and community relations the learning of which calls for a new understanding and also an ability to reconcile reason with the emotions (**Brooks, D.**, The new humanism. NY Times, March 7, 2011).

As far as research organizations, the academic community and the universities are concerned, this paradigmatic change will mean at least the placing of greater emphasis on *strengthening the hitherto neglected synthetic approach alongside the analytical one, the learning of interdisciplinary skills, the relating of scientific data to experiential and other information acquired from a variety of sources and the combining of science and the arts*. I would claim that a change in this direction is already taking place, and that research into co-operative entrepreneurship has a number of advantages in this respect, in that the approach adopted is both multidisciplinary and of an applied nature and the topic combines knowledge, skills and art in a single

<sup>8</sup> Bokova, I. 2010, A New Humanism for the 21st Century. UNESCO.p.2.

living entity.<sup>9</sup> Also, co-operative studies is a relative new topic for university research and teaching, on account of its marginal academic status, and this can similarly be regarded as an advantage, as it helps avoid ingrained attitudes and formulations that may prevent creative thinking.

### UNIVERSITY TEACHING IN CO-OPERATIVE ENTREPRENEURSHIP IN FINLAND AS A CONTINUATION OF THE TRADITION OF HUMANISTIC ENLIGHTENMENT

The educational principle of the pioneers of Rochdale was conceived of in the spirit of enlightenment.<sup>10</sup> The birth and promotion of co-operatives in Finland in the late 19th and early 20th centuries was similarly grounded in the classical humanistic philosophy of popular enlightenment, under influences from abroad, chiefly from Denmark and Germany. The rise of the co-operative movement in Finland was closely linked to the nationalist awakening and the Finnish nation building, and it was above all the interest shown by the educated class in the co-operative model and their trust in it as an instrument of economic enlightenment that did most to promote the organization and success of co-operative societies. Thus the educational and advisory work necessary for this activity proceeded in the wake of the same popular enlightenment ethos, as a part of the work of various organizations within civil society such as the agricultural associations and small farmers' societies in the countryside and the labour associations in the towns. The established central co-operative bodies set out at an early stage to arrange educational courses of their own and to provide advisory services for the provincial co-operative societies, so that the philosophy behind the movement gained a central place in the teaching alongside information on practical matters.<sup>11</sup>

<sup>9</sup> Combining "soul, spirit and skill" according to Pérez Tornero and Varis, or "heart, head and hand" in the words of the inscription on the Gebhard Medal awarded by the Pellervo Federation of Finnish Co-operatives.

<sup>10</sup> In his history of the pioneers of Rochdale Holyoake refers to its educational principle as "the golden rule that enabled the Rochdale Co-operative Society to be more successful than most others and to gain innumerable friends and an excellent reputation". Holyoake, J.J., *The history of the Rochdale pioneers*. London: George Allen & Unwin Ltd. Ruskin House 40 Museum Street, W.C. Fifth Reprint Of Tenth Edition, October 1922.

<sup>11</sup> Cf. Salminen, Matti (2011), *Yrjö Kallisen elämä ja totuus* (The life and truth of Yrjö Kallinen), a newly published book of the Finnish opinion leader of universal humanity, "prophet of co-operatives" Yrjö Kallinen, who made a legendary career in disseminating the philosophy of the co-operative movement in his speeches and writings, beginning in early 1920's until 1960's.

Upon the acceptance of the responsibility of the public authorities for vocational training, and in response to the growth in the markets for commercial instruction in business economics, the co-operative societies have either closed down their training establishments or departments over the last decades or have concentrated on "shop management", the knowhow required in particular spheres of business and general leadership training. *This outsourcing of educational functions has led to a decline in emphasis on the philosophical basis of co-operative business activity*, while at the same time the topic has not carried sufficient weight to warrant its inclusion in public sector education, nor have the commercial institutions offering education in business administration been sufficiently familiar with the field or aware of any appreciable demand for the subject.

The provision of teaching in co-operative studies at Finnish universities has been sporadic ever since the co-operative movement first began, even though the country's co-operative societies have made joint initiatives to attain an established position for such teaching at the higher education level. Co-operative studies did find a place in the curriculum of the privately run People's College in the 1920s and 1930s, largely at the instigation of the representatives of the peasant farmers' and workers' co-operatives within the college's sponsoring body. The People's College was firmly grounded in the principles of enlightenment, especially as it provided a channel by which young people from the countryside or from working-class backgrounds could achieve an academic education without taking the student matriculation examination. It may indeed be said that it has been the common philosophical interest of the co-operative societies in promoting a human-centred form of economy that has ensured the continuity of co-operative studies at the university level from that time up to the present day.<sup>12</sup> (Note 6).

The enlightenment principle has been upheld by the Finnish universities from the 1970s onwards largely through their centres for extension studies. In the words of the former rector of the University of Helsinki **Ernst Palmén**, the university acknowledges its debt to society for all the support it has received by directing resources towards mak-

<sup>12</sup> The People's College, which later came to be known as the University College of the Social Sciences, was moved to Tampere in the late 1950s and is now the University of Tampere. Upon the dissolution of its sponsoring body the co-operative societies donated funds to the University of Helsinki to enable teaching in co-operative studies to commence there in 1956. This branch of teaching has continued at that university ever since under the auspices of either the Faculty of Social Sciences or the Faculty of Agriculture and Forestry.

ing the knowledge generated by it available to meet the needs of society at large. This function has developed in time into a complex system of interaction involving university departments, the centre for extension studies, the public administration, business and industry and civil society in general. It is this concept that has enabled teaching and research devoted to co-operative activities to find a dynamic platform for development within the University of Helsinki, a platform which has carried it forward from the old humanistic tradition to a new global operating environment. Co-operative studies within a multidisciplinary network of eight universities in Finland are at present co-ordinated by the University of Helsinki's Ruralia Institute, the institute we are now.<sup>13</sup> (Note 7). International influences have been sought particularly through contacts with networks representing European university research into co-operatives and social economy and instances responsible for practical development measures.<sup>14</sup>

<sup>13</sup> The Co-operative Studies University Network provides co-operative studies openly for all students of the member universities as a minor subject, and initiates and encourages teachers to include co-operative studies in advanced special study courses (in economics, social studies, law, etc.). A growing number of PhD students are preparing their theses under the supervision of teachers working within the network.

The university network is no longer dependent on funding from the government, but instead relies on participation by the member universities their membership fees and the teaching resources provided by them. The network has also obtained additional funding from outside the universities through a joint project with the Finnish National Co-operative Council (covering all sectors of the co-operative movement: the Pellervo Federation of Finnish Co-operatives, the S Group, the co-operative banks and the E-group co-operative Tradeka).

<sup>14</sup> Among the joint international projects for strengthening co-operative studies, particular mention should be made of the initiative by professor Ian MacPherson entitled *Mapping co-operative studies*, which was discussed at length at the ICA research conference at the University of Victoria in 2003. After the conference Professor MacPherson visited Finland and his encouragement was of especial significance as a step towards constructing a multidisciplinary teaching network here. This new concept was implemented in the form of a joint EU project involving the Universities of Helsinki and Kuopio, and the first pilot study modules were placed on the web in 2003-2005. This activity is being continued with support from the Finnish Ministry of Education's virtual instruction funds, and all the universities represented in the Mikkeli University Consortium joined this scheme in 2006, to be followed by five other universities in 2006-08.

## EPILOGUE: TOWARDS A NEW VISION

The new humanism calls for economy to serve human purposes rather than humans being subordinated in the service of economic goals. Co-operative activity has proved a source of strength at various stages in history both as a means of survival in the face of common adversities and as a way of rejoicing in the search for new solutions and the discovery of these. On the eve of and beyond the International Year of Co-operatives 2012, I see new humanism as a vision calling the co-operative movement, as a human-centred economic organizational model, to change the world as we know it. As demonstrated by our conference, researchers are constantly coming up with new information on the competitive advantages of co-operatives and arguments for their superiority, not to mention constructive criticism. It is to be hoped that the International Year of Co-operatives will help co-operative studies to take its place as a part of university research and teaching and to renew the content of university teaching programmes by making the ideas and practices of co-operative business activity better known.

This is, however, not enough to make full use of the utopian energy of the evolution of economic co-operation. Mastery of the co-operative advantages by scientific means is a necessary but not sufficient condition for the flourishing of co-operatives. In addition to the co-operative skill, co-operative soul and spirit are also needed to revive the human potential of enthusiasm and inspiration. Science will meet art, rationality will accept emotion. This will open up opportunities for bringing the co-operative model forward as a realistic alternative and a source of utopian energy for promoting human-centred economic thinking and practices.

One year after delivering this presentation (14<sup>th</sup> of September 2012), I got a message from Tapio Varis from Brazil, continuing his Unesco research project: "Tapani, I use today your text and slides about co-operative entrepreneurship and new humanism in my presentation. It suits perfectly to our report. Co-operatives belong here to the central aims of the universities in the development of regional services and economy". Coming back to Finland, we will have a lot of themes to discuss with Tapio and others in our sauna sessions, including human co-operation – its utopian energy, its soul and spirit.

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## NOTES:

### 1) WHAT IS SAID OF THE SCIENTIFIC-TECHNOLOGICAL PROGRESS AS HUBRIS:

#### **Social scientist:**

"Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness..."

--Karl Polanyi, *The Satanic Mill in The Great Transformation* (1944)

#### **Novelist:**

"...He (*The Devil*) had been bored the last few hundred years with very little to do but wait ever since he had put certain observations of steam kettles into the head of a young Scots inventor. The kettle epiphany had booted a species – selfish, clever creatures with poor impulse control, suited to hunt, gather and scratch a little agriculture – into a savagedly technological civilization that got rapidly out of hand and sent them blundering toward *The End*..."

-- Annie Proulx, *Fine Just the Way It Is* (2008)

### 2) STATE OF THE MAINSTREAM PARADIGM AND SIGNS OF CHANGE

- Scientific-technological hegemony; the hubris of the unquestioned belief in human rationality
- Homo oeconomicus as a measure of ALL human and social values
- Unlimited economic growth leading to a vicious circle of competitive confrontations, growth exceeding the limits of the earth's resources
- Towards ethical-political consciousness of the necessity of more sustainable ecological, economic and social development
- Success stories and popularity of co-operative alternatives as "concrete utopias"

### 3) THE UN AND NEW OPPORTUNITIES FOR CO-OPERATIVES: FACTS AND WISHES

UN guidelines for the promotion of co-operatives

COPAC and UN interest in co-operatives

ILO recommendation 193 on the promotion of co-operatives

UN resolution of the IYC 2012

Mission for academics: the inclusion of co-operative studies in the university curricula and other levels in the educational system

Linking co-operative education with the humanistic philosophy of the UN/UNESCO

- New humanism: updating the human-centred philosophy of UNESCO for the age of globalization
- Co-operatives as an alternative, people-centred economic model for a globalized world
- Waves to enhance each other!

### 4) NEW HUMANISTIC AWARENESS (SOURCE: TAPIO VARIS, LECTURE AT THE UNIVERSITY OF TAMPERE, MAY 3<sup>RD</sup>. 2011)

NEW HUMANISM

- *The human being over technology*
- *Critical of technology*
- *Autonomy over global communication*
- *Diversity*
- *Universal rights and responsibilities*

OLD HUMANISM

- The human being over theology
- Critical of the classical texts
- Discovery of self
- The New World
- Cosmopolitanism

## 5) NEW RENAISSANCE EDUCATION (WWW.GLOBALUNIVERSITYSYSTEM.INFO)

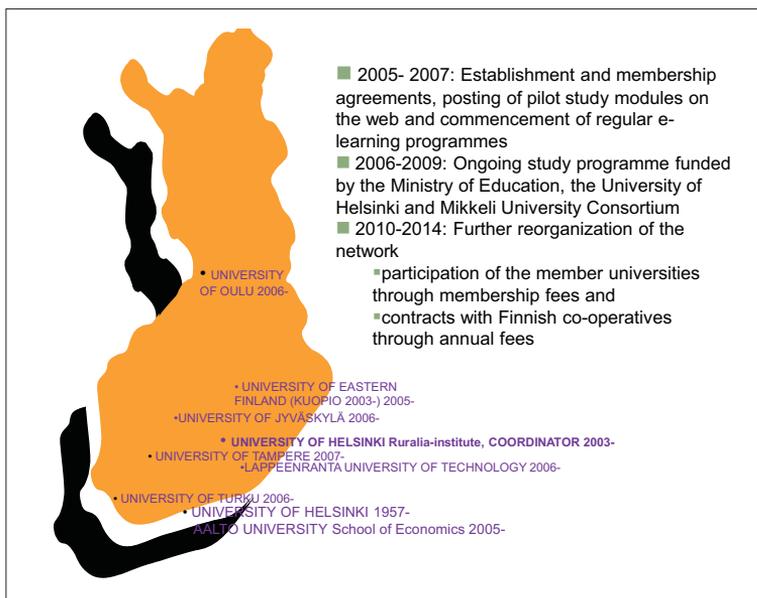
Source: Tapio Varis, Lecture at the University of Tampere, May 3<sup>rd</sup>, 2011

- Science closer than ever to art, due to the study of complexity
- Knowledge has gone through a cycle from generalism to specialization and has now returned to become interdisciplinary and even transdisciplinary
- The arts deal with the sensual world (the media as extensions of the senses) and the holistic concept of a human being
- Educommunication (Pérez Tornero & Varis)

## 6) CO-OPERATIVE STUDIES IN FINNISH UNIVERSITIES, HISTORICAL NOTES

- Late 1890s: lectures by **Hannes** and **Hedvig Gebhard** at summer courses arranged by the University of Helsinki.
- 1920-30's: Teaching of co-operative studies at the **People's College** in Helsinki (later the University College of the Social Sciences and from the 1960's the University of Tampere).
- 1957: Establishment of the **Fund for Co-operative Studies** and the beginning of regular teaching in co-operative studies at the University of Helsinki.
- 1967: Donation of funds by the Finnish co-operative societies for a permanent **professorship in "social policy, especially co-operative studies"** in the Faculty of Political Sciences, University of Helsinki.
- 1978: Closure of the Fund for Co-operative Studies and donation of its assets to establish a permanent post of **lecturer in co-operative studies** at the University of Helsinki.
- 1990: **Reduction** of funding for the **professorship** in the University of Helsinki
- 1991: Building of a separate **Institute for Co-operative Studies** to continue research, education and especially the promotion of co-operative entrepreneurship as a multidisciplinary coordinator within the Faculty of Political Science /Department of Social Policy, with activities relying heavily on project funding.
- 2001: **Affiliation of the Institute for Co-operative Studies to the University of Helsinki Rural Research and Training Centre, Mikkeli (Ruralia Institute)**. Inclusion of Co-operative Studies in the "EcoUniversity" programme.
- 2003-05: Establishment of a new **multidisciplinary concept for co-operative studies to be learned via the internet**, based on partnership between the Universities of Helsinki and Kuopio

## 7) CO-OPERATIVE STUDIES UNIVERSITY NETWORK 2005-2014



# REPLY TO TAPANI KÖPPÄ'S KEYNOTE ADDRESS ON "CO-OPERATIVE ENTREPRENEURSHIP AND THE NEW HUMANISM"\*

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## I INTRODUCTION

The 2011 International Cooperative Alliance (ICA) Global Research Conference marks the beginning of a new phase in the long career of Professor Dr. Tapani Köppä. This reply to his keynote address on "Co-operative Entrepreneurship and the New Humanism" is also a tribute to him, a word of thanks for the not so frequent, but always friendly meetings over twenty years, thought-giving and thought-provoking.

His keynote address to this Conference is yet again full of ideas. It will hopefully be research provoking!

As you know, Tapani Köppä is Mr. Cooperative Finland! He has devoted his professional life to the idea of cooperatives. His merit list is long. He has been the invisible hand protecting the cooperative idea during times when it was not fashionable to do so. Current research, teaching, policy on cooperatives would not be what they are, had it not been for him!

Tapani Köppä's and Dr. Niina Immonen's international engagement brought us *together, here, today*. This (*together, here, today*) brings me to try and tie Tapani Köppä's call for a paradigm shift in science<sup>1</sup> with the "practical issues" I am to announce.<sup>2</sup> Nothing more practical than to take a minute and think about theory!

Obviously, I speak from the narrow point of view of my education, language, culture. And I apologize for that.

Yes, new interdisciplinary and transdisciplinary approaches must overcome specialization and compartmentalization. Analytical methods need

integrating with the ways<sup>3</sup> of arts in order to get a grasp of human beings and societies in their totality reality.

Yes, as enterprises centered on people as persons<sup>4</sup> cooperatives have a lot to offer.

What do artists tell us? I remember Elsa Morante's published speech "Pro o contro la bomba atomica". Her explanation<sup>5</sup> of what art is confirms Tapani Köppä. She says: "[...] *l'arte è il contrario della disintegrazione* [...] perché la sua *funzione* [...] è [...] di impedire la disintegrazione della coscienza umana [...] nel suo [...] logorante, e *alienante* uso col mondo [...] di restituire [...] l'integrità del reale [...]"<sup>6</sup>In short: "Art is the very opposite of disintegration."

I am doubtfully optimistic that the conditions for Tapani Köppä's paradigm, if not paradigmatic, shift are given. Why would Edgar Morin, who has thought for almost 70 years about epistemological questions, continue insisting that 'science needs conscience'? Corporate Social Responsibility

<sup>3</sup> The word "way" is used here as a direct translation of the Greek language rooted word "method" (methodos), which means "way".

<sup>4</sup> The word "person" is used to emphasize that human beings are to be seen in their totality, in their dignity.

<sup>5</sup> "Explanation", not "definition".

<sup>6</sup> Morante, Elsa, Pro o contra la bomba atomica, in: Pro o contro la bomba atomica e altri scritti, Milano: Adelphi 1987, 95 ff. (101/102). Morante was obviously against the nuclear bomb. When choosing this title, she must have been sure that this was known. In the speech she is concerned with the disintegration of "coscienza" to which nuclear fission is not only a symbolic parallel, but also a correlate.

\* With few exceptions and footnotes added, text as presented orally. Date of finalization: 31.8.2011

<sup>1</sup> The word "science" is to be understood here in its broadest sense, also sometimes used in the sense of "research".

<sup>2</sup> That part of the speech is not reproduced.

(CSR) – and the rest – are signs of conscience and co-science/s having disintegrated already.<sup>7</sup>

As a writer Morante trusted the power of words to create. Poets, literally “creators”, pretend to create where they give names to things created in reality.<sup>8</sup> As anyone who ever tried to understand a single word of a foreign language knows, words cut into the fabric of reality totality. They destroy as much as they seem to create. They do not destroy anything of my world, which I could not grasp without my words, but they destroy much of the world of the other, speaking another language (and that can be simply another technical/scientific language); and they destroy much of our common world.

More fundamentally: Can we prevent with the means of arts something from disintegrating which already disintegrated? I.e.: Is our scientific language not already disintegrated to a degree where it cannot grasp the world anymore?<sup>9</sup>

Before I quickly run through the evolution of mass production, portray the way science does not relate to cooperatives anymore and sketch one possible way<sup>10</sup> out, let us hear the opinion of another artist, Friedrich Dürrenmatt, a Swiss playwright. Ten years before Morante’s speech, in 1955, he said something to the effect of “art as a creation of man cannot represent the nuclear bomb because the bomb is itself a creation of man. Two mirrors, which mirror one another, remain empty”.<sup>11</sup> There is no name for disintegrative “creatures”. A grasp of people and society in their reality totality with words is no more possible.

<sup>7</sup> I draw attention to this other meaning of the word “con-science”, or at least to another aspect of it. It reminds us that we should be “conscious” of sciences constituting a totality/whole, co/n-sciences. The etymology is the same in German: “Gewissen” as (moral) “conscience”, but also as “Ge-Wissen”. The prefix “Ge” signifies that which belongs together, like in “Ge-meinschaft”, “Ge-sellschaft”, “Ge-schwister” etc..

<sup>8</sup> One might also consider the word “produce” as signifying to “transform”, which is all we do in economy. We transform energy, but we do not produce it, nor by extension do we produce goods and services. The question is whether the driving production, the production of knowledge, is indeed producing or also transforming only.

<sup>9</sup> The current crisis has not found any “scientific” explanation so far. Cf. for example Vogl, Joseph, *Das Gespenst des Kapitals*, Zürich: diaphanes 2010.

<sup>10</sup> “One possible way”, not “the possible way”.

<sup>11</sup> Summary citation and translation by myself from Dürrenmatt, Friedrich, *Theaterprobleme*, Zürich: Arche 1955, 45: “Die Atombombe kann man nicht mehr darstellen, seit man sie herstellen kann. Vor ihr versagt jede Kunst als eine Schöpfung des Menschen, weil sie selbst eine Schöpfung des Menschen ist.”

## II THE EVOLUTION OF MASS PRODUCTION. PAST

We are *together, here, today*. This unity of space, time and action has been the set-up of classical theatre (Morante gave her speech in February 1965 three times on theatre stage). Mass production developed by copying this set-up. However, it introduced an existential change: It atomized human beings’ unique capacity to work/to create. Of the actor it took the commodifying worker only.

This development greatly serviced hedonistic inclinations. Therefore, main stream economics’ main phantasm, the homo oeconomicus, became a best-seller. Let us be honest! It covered this fissure in workers’ dignity reality totality.<sup>12</sup>

Labor and cooperative movements reacted. The first by pressing for good labor standards. They cushion harsh working and social conditions ... where applied! However, they cannot restore workers’ dignity, as they cannot alter the legal power of the capital holder to determine the “what” and “how” of production, regardless of consumers’ needs; they cannot alter the ownership right of the capital holder to the products at the exclusion of workers. Cooperators, on the other hand, answered by avoiding the conflict between capital and labor from arising<sup>13</sup> and by not distancing the producer from the consumers’ needs,<sup>14</sup> i.e. by not letting things and human beings fall apart, atomize. In passing: through the same mechanism social justice and, hence, political stability can be achieved.

## III PRESENT-FUTURE CHARACTERIZED BY CAPITAL-INTENSIVE, GLOBAL, INTERNET-BASED PRODUCTION

The more production becomes capital-intensive, the more it becomes capital-centered and, even-

<sup>12</sup> Cf. Alonso Olea, Manuel, *De la servidumbre al contrato de trabajo*, Madrid: Tecnos 1979.

<sup>13</sup> Cf. Cid (Mikel, “Making the Social Economy Work within the Global Economy”, in: *Review of International Co-operation*, Vol.97, No.1/ 2004, 80 ff.) for an interesting aspect: Whereas in capitalist, as well as in communist economic theory, capital hires labor, in the social economy the opposite is true.

<sup>14</sup> The slogan of a cocoa producing and processing cooperative in Bolivia, El Ceibo, is representative and it is worth mentioning in this context. It reads: “From the trees to the chocolate, we do not collaborate with the producers, we are the producers”. This is almost a word by word repeat of a clause of a consumer cooperative in Zürich established in 1852. See Schiedt, Hans-Ulrich, *Die Welt neu erfinden. Karl Bürkli (1823-1901) und seine Schriften*, Zürich: Chronos 2002, 106

tually, obsessed<sup>15</sup> with producing high financial returns on financial investments. The more production becomes capital-centered and global, the more it may resource capital globally and the more it becomes disconnected from time and space conditioned phenomena,<sup>16</sup> i.e. from the real world of real needs and aspirations of people, real people, persons. The more production becomes capital-centered, global and internet-based, the more commodified labor may be resourced globally<sup>17</sup> and the more connectivity counts instead of collectivity. Production facilities of the classical theatre type are becoming irrelevant and with them the labor movements and the *institutions*<sup>18</sup> which regenerate their achievements.

#### IV SCIENCE AND COOPERATIVES

“New opportunities for co-operatives” as *institutions*<sup>19</sup> in this scenario?

Cooperatives are known for their structural limitations to access financial markets, for being

local and relying on solidarity<sup>20</sup> fostering collectivity. With the helping hand of sciences politicians and other actors had long concluded: “No opportunities for cooperatives in capital-intensive, global, internet-based production”! The distinguishing features of cooperative enterprises as *institutions* started diluting. Research and education on cooperatives – where they existed – stopped. Cooperatives disappeared from the visualized scenes.

One billion cooperative members and at least another two billion economic dependents secure at least partly their livelihood through cooperative enterprises. How come this is not seen? This will not be seen unless we succeed in including the subject of cooperatives into research and education. Our brain sees what it is trained to see. For some time now it has been trained to see what cooperatives are known for. But what is the scientific knowledge on cooperatives’ totality reality?

Can we see that the modern economy is driven by the production of a specific product, namely knowledge, and is therefore not only capital-intensive, but also brain worker-intensive?

Can we see that the *global* order needs locally rooted democratic relay institutions as the *international* order and its democratic support structures are crumbling?<sup>21</sup> Can we see that connectivity might fuel another type of solidarity? Cooperatives

<sup>15</sup> Cf. Vogl, op. cit.. Vogl is concerned with the place capital has taken in economy, not with capitalism in its more socio-political sense.

<sup>16</sup> I refer to Kant, of course.

<sup>17</sup> Prantl, Heribert, Brav gearbeitet, wackerer Maulwurf!, in: Frankfurter Allgemeine Zeitung 3.5.2011, 32

<sup>18</sup> Ibid

<sup>19</sup> Among the many definitions of “institutions”, the one by North seems to be the most widely known. He writes (North, Douglass, Institutions, in: Journal of Economic Perspectives 1991, 97 f.): Institutions are “humanly devised constraints that structure political, economic, and social interactions. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (conventions, laws, property rights).” Granger (Roger, La tradition en tant que limite aux réformes du droit, in: Revue internationale de droit comparé 1979, 37 ff. (44 et 106) writes: « L’institution peut être définie comme le regroupement de règles de droit, agencées selon un certain esprit, autour d’une idée ou fonction centrale dont elles sont les instruments de réalisation. » Whereas North represents rather a sociological/economic view, Granger defines “institutions” rather in the legal sense and close (cf. especially on p.106) to the “General System Theory”. Cf. for example Bertalanffy, Ludwig von, Perspectives on General System Theory, ed. by Edgar Taschdjan, New York: George Braziller 1975. I follow here the definition by Granger.

<sup>20</sup> The term “solidarity” is used here in its legal sense of “obligatio in solidum”, distinct from “caritas” (charity). The difference is important as Corporate Social Responsibility (CSR) rather relates to the latter. I owe much of my thinking on this difference to Alain Supiot. Cf. for example Supiot, Alain, L’esprit de Philadelphie. La justice sociale face au marché total, Paris 2010; Idem, Contribution à une analyse juridique de la crise économique de 2008, in: revue internationale du travail 2010/2, 165-176.

<sup>21</sup> I use the term “international” as ‘between states’, i.e. in its general acceptance. By “global” I understand the abolition of all barriers so as to allow for the means of production, especially capital and labor, to be “used” everywhere. Cf. for example Becerra, Santiago Nino, El crash del 2010, 6<sup>th</sup> ed., Barcelona: los libros del lince 2009. The difficulties with which governments react to the current “crisis” relate also to this international order having become to a large extent dysfunctional. Based on a review of Ikenberry’s call for a new international order (cf. Ikenberry, G. John, Liberal Leviathan: The Origins, Crisis and Transformation of the American World Order, Princeton 2011) by Rachman (Gideon, America the dutiful, in: Financial Times, May 7/8, 2011, 16), I suggest considering the need for complementing the international order with a global order which needs local support structures, including enterprises with a democratic structure. Cf. also Ash, Timothy Garton, Hacia un mundo libre: del G-8 al G-20, in: El País 28.5.2011, 31; Kocher, Victor, Die Uno sorgt sich um die Lenkung der Welt, in: Neue Zürcher Zeitung 27.11.2010, 11. Cf. also Vorländer, Hans, Spiel ohne Bürger, Frankfurter Allgemeine Zeitung 12.7. 2011, 8.

are already practicing these new opportunities.<sup>22</sup> Can we see that?

Where has the epistemology gone which could help us shift the way Tapani Köppä suggests?

It has gone to the dust-bin at the speed those aspects of life have which cannot be atomized, commodified, standardized,<sup>23</sup> measured, digitalized, reduced to nano particles and expressed in numbers. Figures are the Esperanto of what we call communication. Where words cut into the fabric of reality, numbers/figures divide, disintegrate, annihilate<sup>24</sup> timelessly spacelessly. Communication of stock values, interest rates, boni etc. in real time,<sup>25</sup> i.e. in no time, are the minute particles of what is left of economy. They are fed into time-bound processes of knowledge constitution.<sup>26</sup> The same food feeds into computer programs which decide automatically for example on the sale and purchase of stocks at the stock exchange.<sup>27</sup>

After Orwell's "Animal Farm" Aldeous Huxley's "Brave New World"? These artists again!

<sup>22</sup> Examples abound, not the least those presented during this Conference.

<sup>23</sup> Even literature seems to be more and more standardized. Cf. Parks, Tim, *Warum wir an Literaturpreise glauben*, in: *Frankfurter Allgemeine Zeitung* 16.7.2011, Z1.

<sup>24</sup> René Descartes' figure of the rational as a division of the world without rest is present. Cf. Descartes, René, *Discours de la méthode*. I draw again attention to the word "methodos" = Greek for "way".

<sup>25</sup> Cf. Lübberding, Frank, *Die Welt geht unter, wir gehen mit*, in: *Frankfurter Allgemeine Zeitung* 10.8.2011, 33.

<sup>26</sup> More and more, the scientific community starts to resist attempts to subject research and education to some imagined market rules. Cf. for example « Forte mobilisation des étudiants chiliens pour une éducation publique et gratuite », in: *Le Monde*, 12.8.2011, 7. Cf. also the vote of the Congregation of the University teachers at Oxford University (Cambridge University is planning to do so as well) against plans by the British Government to partly privatize this institution. Reported by Störkel (Rüdiger, *Angriff auf die höhere Bildung*, in: *Frankfurter Allgemeine Zeitung* 6.7.2011, N5). The strongest argument as yet against the commercialization of research is put forward by Mirowski (Philip, *Science Mart. Privatizing American Science*, Cambridge/Mass.: Harvard University Press 2011). I have described elsewhere the confusion of patent rights and copyrights as alarming because of the excluding negative effects of the former on knowledge constituting diversity.

<sup>27</sup> which has more often than not been transformed into a stock company itself and lost hence the function of a neutral market broker. Cf. for example « Depuis la crise, nous n'avons plus de système capitaliste pour les banques », in: *Le temps* 25.3.2011, 24 ; de Corbière, Cécile, *Sur fonds de folles rumeurs, les banques françaises sont attaquées en Bourse*, in: *Le Monde* 12.8.2011, 12.

## V CONCLUSION: A POSSIBLE WAY OUT

Let me finish by some cooperative optimism.

Cooperatives' economic, social and cultural achievements are not always as they should be and this is seen easily; where they are, it is not seen, because there is not enough to report on them in figures. This latter fact is however good news! It shows that cooperatives have not (yet) disintegrated reality totality to the degree required for the type of communication mentioned.

The current crisis is not a financial one; it is not an economic one; it is not one of employment. It is an epistemological crisis; it is *the* crisis of our thinking on these issues.<sup>28</sup>

Confronted with this crisis, you as a researcher or practitioner either join the "community of believers", as Binswanger calls main stream economists,<sup>29</sup> and as lawyers could also be called for that matter, and you pray for the next crisis not to hit *your* stock portfolio, or you think about your 'business' in the following five (cooperative) steps:

### **Step 1:** Do it yourself!

Since yet another artist, less international, more global, V.S. Naipaul, tells us: "The world is what it is; men who are nothing, who allow themselves to become nothing, have no place in it."<sup>30</sup>

### **Step 2:** Define your need!

Your need is knowledge on cooperatives.

**Step 3:** Realize that others have a similar need and liaise with them, whilst respecting also other(s') needs!

### **Step 4:** See what you have!

You have a universally recognized object of research: Cooperatives. Through this enterprise, cooperative members are to satisfy their common economic, social and cultural needs and aspira-

<sup>28</sup> At the Expert Group Meeting which consulted the UN on the desirability and feasibility of an international year of cooperatives I expressed a similar view. Cf. HenrÏ, Hagen, *Cooperatives, Crisis, Cooperative Law*. Contribution to "Cooperatives in a world in crisis", Expert Group Meeting organized by the Department of Economic and Social Affairs (DESA) of the United Nations, 28-30 April, 2009 at New York, at: <http://www.un.org/esa/socdev/egms/docs/2009/cooperatives/Hagen.pdf>

<sup>29</sup> Binswanger, Hans Christoph, *Die Glaubensgemeinschaft der Ökonomen. Essays zur Kultur der Wirtschaft*, München: Gerling-Akademie-Verlag 1998 (2. Aufl., Hamburg: Murmann 2011)

<sup>30</sup> Naipaul, V.S., *A Bend in the River*, Picador 2002, 1

tions.<sup>31</sup> More or less well, most of them do so. This means, cooperatives deliver material we can analyze. But they also provide their members something we cannot analyze, which needs accessing through the ways of arts. I.e.: the praxes of cooperatives are closer to this reality totality of human being and society we are seeking to know than enterprise types which pursue financial goals only.

We are beyond figures. We are beyond words. We are on the field of experience where arts meet science, where theory meets praxes.<sup>32</sup>

Institutions, for whatever they are otherwise,<sup>33</sup> are memory sticks of experience.<sup>34</sup> Cooperative enterprises as institutions fuel the constitution of knowledge on them, knowledge which, in turn, generates and regenerates the constitution of cooperative enterprises.

**Step 5:** Reach this field of experience!

How? By pooling what we have. We have a lot *together, here, today*: At least 36 different languages; at least as many cultures; uncounted different praxes experiences; uncounted different academic traditions and approaches. What a unique opportunity to dialogue<sup>35</sup> in order to overcome specialization and compartmentalization! What a unique opportunity to try the arts' and sciences' ways to listen to what others write, to try and see how others speak of the world, to try and feel what others feel!<sup>36</sup>

I think it is practical to just make use of this opportunity. This is why we are *together, here, today*. Not on theatre stage, not in spaceless and timeless shows, but as practitioners, researchers, and especially as persons!

Thank You Tapani Köppä!

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<sup>31</sup> Reference is made to the definition of cooperatives as contained in the 1995 ICA Statement on the co-operative identity (International Co-operative Review, Vol. 88, no. 4/1995, 85 f.) and in the 2002 ILO Recommendation 193 concerning the promotion of cooperatives, Paragraph 2 (ILC 90-PR23-285-En-Doc, June 20, 2002).

<sup>32</sup> This is based on the assumption that the experience of basic phenomena is not culture-bound, whereas theory and science are.

<sup>33</sup> Cf. above footnote 19.

<sup>34</sup> On similar lines it might be rewarding remembering past bodies of knowledge and to further develop them, like for example political economy, social market economy, Ibn Chaldun's ideas concerning social market economy, concepts of ordopolitics etc..

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<sup>35</sup> "Dia" in the Greek sense of the meaning, that is. Not "duo".

<sup>36</sup> Art can also be explained by that capacity to express the impressions on one of our senses through expressions of another sense.

## CHAPTER 1

# THE IDEA OF CO-OPERATIVES, ITS HISTORY AND JOURNEY THROUGHOUT THE WORLD



# A NEW OPPORTUNITY FOR CO-OPERATIVE EDUCATION: LINKING AND LEARNING WITH THE INDIGENOUS HUMANITIES

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## INTRODUCTION

By virtue of involving more than one discipline, multidisciplinary teaching and research can create the conditions for competition or co-operation: for the reproduction of disciplinary hierarchies which reflect the current ascendancy of science and technology and the dominant economic orthodoxies of our time, or for new opportunities for multi-, trans-, and interdisciplinary work animated by co-operative principles in a formal and concerted rather than a nominal and intermittent way. In this, as in many other contexts, co-operation should not function as a loose, dehistoricized synonym for the partnerships promoted by neo-liberalism (Cooper, 2007; Macdonald & Chrisp, 2005; Jordan, 2003), but as a signifier of particular histories, principles, and opportunities which insist on the durability and distinctiveness of co-operatives and their strong ties to innovation, collective empowerment, and democratic practices (Fairbairn, Bold, Fulton, Hammond Ketilson, & Ish, 1991; Fairbairn, 2004; Restakis, 2010; Zamagni & Zamagni, 2010).

On the grand scale epitomized by the International Co-operative Alliance (ICA), co-operative internationalism esteems national differences as possible sources of best practices while also seeking to transcend the locality and polity of difference in the interests of transnational solidarities that model co-operative principles while asserting in more influential ways their relevance to global challenges expressed by the notion of the quadruple bottom line: economic, social, cultural, and environmental. With 2012 looming as the United Nations International Year of Co-operatives, an occasion attended by opportunities and challenges, we offer in this paper a framing and analysis of a particular emergent formation, the Indigenous Humanities (Battiste, Bell, Findlay, Findlay, &

Henderson, 2005; I. M. Findlay, 2003b) developed at the University of Saskatchewan and now being taken up across Canada and beyond, and how it might contribute to the ICA's efforts to strengthen, and where necessary transform, co-operative education and practice in local, national, and international settings.

The Indigenous Humanities is a new Canadian academic formation committed to intercultural, interdisciplinary, and co-operative theory and practice, learning across our differences to revalue Indigenous knowledge, make inquiry more sociable and accountable, and give more complex accountings of identities, institutions, and multiple bottom lines than mainstream institutions and forms of inquiry have typically permitted. The decolonizing efforts of the Indigenous Humanities build on gains expressed in covenants of the International Labour Organization and *The United Nations Declaration on the Rights of Indigenous Peoples*. How these gains were made, and the educational and socioeconomic agendas they encourage, have much to tell us both about how receptivity and resolve can be nourished at the UN, and about how UN recognition and legitimation can be translated into specific educational and economic initiatives outside the severely policed and punitively enforced orthodoxies of 'the' market.

While the notion of a "knowledge economy" was gaining prominence in 'free' market circles, Indigenous peoples were working at the UN for the recognition of Indigenous Knowledge (Henderson, 2008). On the basis of this recognition they developed a whole series of initiatives under the aegis of Indigenous Science, to counter the Euro-American presumptions of mainstream science and the technological and economic applications that science enables. Indigenous scholars tempered in the power relations of the UN are now undertak-

ing the same task via the Indigenous Arts and the indigenous Humanities as they are continuing with indigenous Science. In each area they have encountered skepticism and resistance while trying to shift the frames of understanding and practice from knowledge economies as an expression of market logic and Eurocentric thinking about “humanity artificially detached from the environment” (Henderson, 2008, p. 18) to **knowledge ecologies** aligned with commitment to diversity as enrichment, people before profit, and with responsible stewardship and sustainable practices grounded in land, language, and the collective rights and responsibilities of peoples (Battiste & Henderson, 2000; Henderson, 2006).

Those involved in this Indigenous Renaissance are as globally dispersed as co-operators, and as familiar as are counter-hegemonic co-operators with bemusement, hostility, and glib dismissal as a response in the media and educational institutions to what they value and what they do. In linking and learning with Indigenous co-operators and the leading thinkers in the Indigenous Knowledge and Indigenous Humanities movements, co-operators worldwide will be better placed to take fuller educational and practical advantage of enhanced attention and receptivity in 2012.

## REVISITING ROCHDALE THEN AND NOW

An insistence on particular histories of co-operation, their breakthroughs and barriers, is important also because it helps celebrate the successes while remedying persistent blind spots of the movement. In this regard one can (still) learn much from developments in nineteenth-century Britain about the challenges of freeing progressive economic and social energies from the blinkers of nationalism and racism. Owenism, socialism, and co-operation were formed in reaction to the inhumanity of laissez-faire capitalism (Engels, 1845/1975; Chase, 2007). A key aspect of that regulation-averse, industrial order was its dependence on internal and external colonial axes, its double articulation at home and away, exploiting domestic as well as colonial labour markets in a fashion that led to regular comparisons between slave labour in Britain’s colonies and wage slavery in the factory system (Pinfold, 2007). Such comparisons could be to the alleged advantage of Caribbean slaves over factory workers or the sailors who brought such slaves across the Middle Passage. One of the

problems with the class politics of abolitionists was that they centred (and recentred) their own efforts to build a self-aggrandizing, paternalistic narrative that somehow survived demolition by Afro-Caribbean critics like James (1938/1989) and Williams (1944), to be recycled on the back cover of a volume of slave trade documents published by the Bodleian Library:

This book reveals the wakening of a nation’s conscience which shifted to place a higher value on humanitarian concerns rather than selfish, purely economic, considerations. It also provides a unique snapshot of a movement which became the prototype for *all* subsequent mass political and humanitarian campaigns including the Anti-Apartheid Movement and the campaign to Make Poverty History” (Pinfold, 2007, blurb; emphasis added.).

The challenge for anti-capitalists was therefore to connect abolitionist and socialist-communitarian currents of dissent so as to intensify the financial and moral vulnerability of plantation owners and factory owners alike, to advance what George Jacob Holyoake in his dedication to volume 1 of *The History of Co-operation* (1875/1908) called “the claims of the slave, black or white, in bondage to planter or capitalist.” The dedicatee, American lawyer and orator, Wendell Phillips, enlarged his concerns from abolitionism to the rights of Native Americans (Stewart, 1986), a move emulated by neither Holyoake nor Owen. Elsewhere, class trumped ‘race’ as the basis for political and economic activity—a process that began early in North America and is often identified with Virginia in the early eighteenth century (Allen, 1994). Initiatives such as Phillips’ did not happen nearly enough. While progressive voices concentrated their critique on the shameless exploitation of African labour in the plantation economies of the Caribbean and the Southern United States, the rights and conditions of the Indigenous peoples of North America were largely ignored.

Robert Owen, for example, keenly aware as he was of the need to export socialism in order to support its development at home, and committed as he therefore was to the double focus of the British **and** Foreign Philanthropic Society for the Permanent Relief of the Labouring Classes, conceives co-operative colonies like New Harmony in Indiana as “open to all the world, ‘except persons of colour’” (cit. Podmore, 1971, p. 293). Indeed, Owen, like Henry Jones, the only Owenite community builder in Canada, remains entirely silent on the matter of Indigenous title to lands where co-operative colo-

nies were being established. Jones (1776-1852), established an Owenite colony at Maxwell, Ontario, in 1828. In seeking to purchase land near Lake Huron, Jones dealt with the British Colonial Secretary and with the Lieutenant Governor of Ontario, and not with the First Nations whose land this still was, and is (Buffett, 2000). The naming of co-operative communities in the United States derived from Eurocentric utopianism in the case of New Harmony, Indiana, and from latitude and longitude translated into letters in the case of Feiba Peveli (Holyoake, 1875/1908), neither of which nomenclature attended to Indigenous place names and the kinds of title they affirmed or implied, including the non-alienation of Aboriginal title and tenure in Canada, and conditional cession of lands to the imperial government under the aegis of the Honour of the Crown (Henderson, Benson, & Findlay, 2000; Henderson, 2007).

Owen proceeds on the basis of comprehensively anti-religious principles, hence spurning one of the crucial justifications of so many civilizing missions of this period. However, Owen's expanded sense of the human family as "the human race" (Owen 1920, pp. xi, 180) with the usual exceptions and eligibility conditions, turned on his own sense of himself as a decidedly white *pater familias*, what Holyoake called the "preliminary father" of a new Association of all Classes, and of all Nations in 1834 (1875/1908, p. 137), and on the potential sites of co-operative communities in the 'new' world as effectively *terra nullius*, empty and awaiting productive settlement by communitarian "pioneers." Accordingly, when the "Rochdale Society of Equitable Pioneers" declared their principles of co-operation in 1844, their commitment to social theorizing and to member education was very much in the Owenite tradition (Fairbairn, 1994, pp. 3-5), but so too was their notion of who deserved equitable treatment and what *pioneering* itself entailed, both defensibly in the Home Colonization movement and much more problematically across the British dominions. Tellingly, the first part of Holyoake's *History of Co-operation* is entitled "The Pioneer Period 1812-1844" but lacks any reflection on what was happening 'away' in the name of pioneering, though the movement of pioneering from trade unionism through *The Pioneer* newspaper to *The Social Pioneer* shows otherwise an increasing attention to the social (Holyoake, 1875/1908). The Rochdale innovators were inflected—even infected—by imperialist-colonialist presumption shared by critics as well as proponents of "racial capitalism" (Robinson, 1983/2000, p.2), in addition to being inspired by the British underclass's better self. Holyoake was clear, for example, on working class rejection

of the racism of the American Copperheads and that "many a stout [abolitionist] blast came from Rochdale" (1875/1908, p. 295). But again concern is fixed entirely on the plantation economy, not the accelerating 'winning' of the West at the expense of Native Americans (Blackhawk, 2006).

More than a century after Rochdale, things had not improved much in Canada, with 'race' still trumping class in the self-understanding and practice of co-operators in a "settler society" with its own largely triumphalist history of pioneering (Battiste et al., 2005), though the history since the 1950s and 1960s of Aboriginal co-operatives in Canada's north tells a very different story of extraordinary accomplishment (I. M. Findlay, 2006; Hammond Ketilson and MacPherson, 2001; Hammond Ketilson and MacPherson, 2002). Even in the radical 1960s, when the evocatively named Rochdale College was established as a co-operative alternative to the University of Toronto and its competitive clones across the country, it was still very much a white urban initiative, responsive to Afro-American resistance still (though now in the form of Black Power rather than abolition) but inadequately attuned to developments in the Indigenous community. Under the leadership of Indigenous scholar-activist Wilf Pelletier, Rochdale College did for a short time welcome the Institute of Indian Studies into its building, mind, and heart. However, Indigenous communitarianism soon ran foul of a cash crunch and of Canadian co-operators educated and socialized to resent Canada's First Nations people as parasites, obstacles to progress, and beneficiaries of agreements which, like the foundational treaties, gave them what were perceived to be unfair advantages over 'ordinary' Canadians (Sharpe, 1987). One of the consequences of Canada's co-operative educational experiment at Rochdale, and of radical initiatives elsewhere in the country (Palmer, 2009), was a replay of Indigenous disillusionment with the paternalism and self-absorption of white progressives (Bedford and Irving, 2001; Simmons, 2008). When even some of Canada's most radical co-operators retained this blind spot, it meant that First Nations, Inuit, and Métis had in some sense to go it alone, or with Indigenous cohorts elsewhere in new initiatives at the United Nations (Henderson, 2008). In order to move outside the constraints of the Indian Act relating to land and resource use and credit within "enclave economies" and to build co-operatives in "interwoven economies" such as the Inuit economies of the North, the leadership efforts of a few outstanding individuals, such as Andrew Goussaert in the North and Chief Joseph Hare of the M'Chigeeng First Nation whose vision led to Anishinabek Nation Credit Union, proved

critical (Hammond Ketilson and Macpherson, 2002, pp. 50-51). Increasingly from the 1970s and 1980s, Aboriginal leaders and communities would connect with allies and collaborators as peers, on the basis of capacity and legitimacy, not deficiency and dependency (I. M. Findlay & Wuttunee, 2007).

## THE INDIGENOUS HUMANITIES, THE UN, AND CANADA'S NATIONAL MALAISE

When it comes to multidisciplinary teaching and research, our Indigenous Humanities Group (IHG) at the University of Saskatchewan tries to keep the domains of teaching and research in mutually enriching relation to one another. Our University graduate and undergraduate curriculum is accessed via the Centre for the Study of Co-operatives, but also via the Aboriginal Education Research Centre, the Native Law Centre, the Community-University Institute for Social Research, the Edwards School of Business, Law, Education, and Literature and the Visual Arts departments in the College of Arts and Science. The professional schools/liberal arts distinction is both maintained and transcended in the name of co-operative multidisciplinary—but with an “Indigenous difference” (deriving from prior occupancy, Aboriginal and treaty rights, and cultural distinctiveness (Macklem, 2001) inflecting and animating “the co-operative advantage” (Birchall, 2003). Teaching, including co-teaching, is linked to the academic curriculum but also to indigenous teachings generated, kept safe, and acted upon off-campus, beyond the residual and neo-Eurocentric reach of an elite institution. The double valency of teaching and teachings within a “teaching civilization” no longer prepared to be “the willing learners of modernity” (Henderson, 2008, p. 48) critiques and complicates the notion of disciplinarity as such, countering intellectual silos and turf warriors with a holistic approach and land-based knowledge and sense of territoriality as sustainable stewardship by a community of users (Davidson-Hunt & O’Flaherty, 2007) fostering “an overall sense of *interconnectedness*” (Michell, 2009, p. 66).

Meanwhile the notion of Indigenous knowledge helps to temper the confidence and diversify the sources, methods, rituals, and outcomes of academic research (Battiste and Henderson, 2000; Kuokkanen, 2007; Wilson, 2008). It helps to reimagine the academy as a site not of “studied ignorance and privileged innocence” (McIntyre, 2000) but of responsibility and reciprocity where “the logic of the gift” replaces the exchange value of hegemonic and

economic rationality (Kuokkanen, 2007). The twin dangers of academic research involving Indigenous communities, namely paternalism and predation, are revisited constantly so as to help steer us away from the diffusionist, expansionist, and exploitative presumptions and practices so often nourished within single-focus, monocultural, self-policing academic disciplines. Responding to mainstream education’s three Rs with their low expectations of and traumatic consequences for Aboriginal learners, we aim to demystify and democratize research in the three Rs of engaged community-based research—research, relationships, and reflexivity—that “promote heightened expectations of all and mutual learning” (Findlay, Ray, & Basualdo, 2011). In this process of combining enhanced openness with enhanced self-criticism, three questions remain at the centre of our thinking and action: Who have academic disciplines served in the past in Canada (and elsewhere)? Who are they serving now? And how can they be aligned with decolonizing work and good receptivity, and uncoupled from traditional complicities with colonialism and timorous recourse to protective coloration?

The Indigenous Humanities link with and learn from connections between our campus and the Indigenous Caucus at the United Nations in the person of one of our members, Sa’ke’j Henderson, who is also one of the longtime proponents and drafters of the UN Declaration on the Rights of Indigenous Peoples. Here is how Henderson remembers things:

The process of building consensus and drafting declarations refined [Indigenous peoples’] skills in the complex and often duplicitous world of international diplomacy. Our declarations’ impacts were especially profound in those parts of the world where indigenous peoples traditionally had little contact with outsiders. They generated the useful concepts of Indigenous knowledge, traditional ecological knowledge, *Indigenous humanities* and science, and began to formulate intercultural, trans-paradigmatic, or trans-systemic understandings of issues and topics of interest to indigenous peoples. (Henderson, 2008, p. 59; emphasis added)

This new intellectual formation grew out of the work of collective resistance to a hegemonic humanism and humanitarianism which continued to exclude or forcibly assimilate Indigenous peoples (Findlay, 2003b). The process of collective Indigenous resistance had started at the inception of the League of Nations (Henderson, 2008) and

had to be continued within the United Nations despite such remarkable, encouraging responses to the insanity of two World Wars as the Universal Declaration of Human Rights (1948). As with the Treaty of Westphalia (1648; Henderson, 2008) or epochal declarations in the newly sovereign United States or revolutionary France, such terms as “all” or “universal” have in the experience of Indigenous peoples, even in the most hospitable of contexts, been neither fully inclusive nor especially benign. As Henderson (2008) put it, “we were invisible. . . . We were ghost peoples, hidden, like our languages and cultures, by the concept of the nation-state” (p. 35). This tendency to universalize the contingently dominant reached an apogee with Fukuyama’s contentions about the inevitable, desirable triumph of (his version of) liberal democracy and “the increasing homogenization of all human societies” (1992, p. xiv). Tellingly, Fukuyama ignores American Indian realities so far as to insist that “none of America’s ethnic groups constitutes historical communities living on their traditional lands and speaking their own language, with a memory of past nationhood and sovereignty” (p. 119). The racializing exceptionalism of the dominant, and of their progressive critics in the mother country, has played out only too negatively for Indigenous peoples.

However, working with imperfection is our only option, and Indigenous activists recognized the UN as gesturing towards global consensus in a nuclear age, responding to the primal fear of mutually assured destruction with desires for nuclear non-proliferation and for liberation in the form of the dismantling of empires in what might yet become a golden moment in the history of respectful, mutualist, communitarian self-determination. But the nation-state is an internally conflicted as well as externally threatening and threatened entity (L.M. Findlay, 2006). And the increase in political independence among peoples across the world was haunted by two spectres: ongoing economic serfdom after independence and the failure of emancipated national elites to address and redress the rights of Indigenous peoples within a politically post-colonial world order. Indigenous peoples had to fight on against the casual or the calculated rapacities of global capital and the inability or unwillingness of sovereign countries to put their own houses in order. White flight from Europe’s former colonies, especially in Africa and Asia, left an imperial-hegemonic apparatus largely intact. The newly liberated had to learn to serve the First World in new ways, now more mediated and apparently nuanced than those favoured by the plantation owner and the mining magnate, but entailing infantilization

and thralldom nonetheless. The UN represented hope and aspirational (albeit cumbersome) inclusiveness—a place for “responsible action and participation” and a place “to imagine the possibilities of transformation” (Henderson, 2008, p. 36). Meanwhile, analogous entities like the World Bank and the International Monetary Fund represented what might be termed a Securities Council designed, like the Security Council itself, to privilege the traditional world powers as the countries who would continue to call the shots, defining and enforcing one particular version of ‘the’ economy.

Between 1948 and the Declaration of the Rights of Indigenous Peoples in 2007, there were six decades of unremitting effort and constant frustration and betrayal at the UN as well as within particular nation states, both old and new. Patiently, more or less stoically, Indigenous peoples strengthened their capacity to work within the structures and discourses of the dominant, but to do so without ceding their land claims or their own claims to a plenary, unequivocal humanity. They demonstrated how Indigenous peoples paid a disproportionately severe price when restructuring and tough love were imposed on states within or across whose borders their traditional territories lay. A series of reports and resolutions were produced at the UN, then an International Year of Indigenous Peoples was declared, to be followed by two successive Decades similarly designated, from 1995–2004 and from 2005–2014. This puts the international Year of Co-operatives in useful perspective. A single year doth not a global transformation make! No one knows when global consensus will be achieved at the UN or whether its announcement will bring about the change it aspires to. But the UN remains an invaluable venue for self-education and global education about some of the most formidable and persistent obstacles to justice. This means education without guarantees, no doubt, but education rich in new opportunities.

Disappointingly, of the four countries who refused at first to ratify the 2008 UN Declaration, one was Canada—this from a country that until recently made much of its role in drafting the Universal Declaration of Human Rights in 1948, of its growing reputation thereafter as an honest broker and ethical middle power, and of the award of the Nobel Peace Prize to Prime Minister Lester B. Pearson for helping defuse the Suez Crisis and promote peace keeping over peace making. This internationalist narrative is still part of Canadian school curricula, though not reflective of the values and priorities of our current federal government. Under Stephen Harper’s leadership, there has been little attempt to inscribe and celebrate within our national story the

contributions of Canadian Indigenous scholars to the composition and ratification of the UN's Indigenous Declaration. Indeed in the official Canadian "endorsement" of the UN Declaration on November 12, 2010, Minister John Duncan names no-one in his gesture towards "the Aboriginal men and women who played an important role in the development of this Declaration" (Government of Canada, 2010). Minister Duncan's "statement of support" is replete with state euphemism, amnesia, and self-promotion. Canada as an honest international broker and "fair country" (Saul, 2008) is invoked as a memory and travestied in current practice, by appeals to an "historic apology" and to partnerships with the four host First Nations at the Vancouver 2010 Winter Olympics, gestures which ignore the discrepancy between apology and economic redistribution and the intense controversy surrounding and outliving the 2010 Winter Olympics. This is part of a shift to mean-spirited militarism (Dobbin, 2010; Martin, 2011) and ecological irresponsibility (Abma, 2011; Suzuki & Moola, 2011) on the part of the Government of Canada, but also results from a regrettable fidelity to the colonial view that only the fully human are entitled to human rights in a plenary sense, and that this determination of 'real' humanity will be made without any recognition of the existence and relevance of "First Nations Jurisprudence" (Henderson, 2006).

Despite an official apology regarding residential schools' efforts to "kill the Indian in the child" (as Canada's first Prime Minister bluntly put it), belated signing of the Declaration of the Rights of Indigenous Peoples, the recent and unprecedented failure by Canada to gain election to a seat at the Security Council, and recurrent avowals of concern for Canada's First Nations, Inuit, and Métis—despite all this the Canadian government has intensified its embrace of free market ideology even while regularly departing from that ideology to reward its corporate friends rather than the co-operative sector. Bluntly put, post-Bush, many inside and outside Canada are watching with bemusement, dismay, or outrage the rise of the "Ugly Canadian" (Attaran, 2009; L. M. Findlay, 2011; Simpson, 2011). The current prospects for Indigenous justice, the move beyond gestures of reconciliation to policies of economic redistribution, offer apposite lessons for those intent on moving co-operatives to the centre of economic thinking for political, ethical, social, and ecological reasons.

## THE INDIGENOUS HUMANITIES AND INDIGENOUS CO-OPERATIVES

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Co-operation, in both the broad and in the specialized organizational sense, need not be a consolation prize or handy balm for the wounds of capital; it *can* instead be common ground on which to plan and pursue a future beyond the madness that styles itself modernity or progress or inevitability. However, in order for this to happen, certain changes need to occur. For instance, an immensely rich country like Canada can continue its feverish allegiance to state simplifications and market mantras which constantly construct our so-called "Indian problem" as insoluble and no longer the responsibility of a settler society where meritocracy rules, the present lords it over the past, and a glittering future awaits individuals with sufficient drive, education, and self-interest. Or, Canada can become a more resolutely and inventively co-operative nation that looks to the Canadian academy for new ways of linking and learning. And the designation "Indigenous Humanities," like Rochdale's "Equitable Pioneers," can work beyond its oxymoronic surface to model and mobilize new co-operative alliances and practices.

The Indigenous Humanities have developed in reaction to academic colonialism and academic capitalism, in a form of voluntary association across and beyond disciplines. Our status within this new formation as academics gives us a measure of personal and collective autonomy and the protections of academic freedom. We do not 'own' our enterprise, strictly speaking, but are instead responsible for it and committed to extending a sense of intellectual and social ownership in this initiative and its goals. Our research is characterized by democratic self-governance within the ostensibly hierarchical structures imposed by federal granting councils and funding agencies. We are attentive to co-operative intellectual production with shared social dividends for all participants. We resist the commodification of knowledge and emphasize benefits for all the communities with whom we partner as equal members in multiple sites of capacity and need (Findlay, Ray, & Basualdo, 2011). We seek to be internationalist in the way that the ICA does, and we are emphatically committed to education as a responsibility and opportunity for all of us. Just as many mainstream economists feel they have nothing to learn from co-operators, so many mainstream academics feel they have nothing to learn from Indigenous knowledge-keepers. The power and folly of this mainstream prejudice have been brilliantly demonstrated by Sami schol-

ar, Rauna Kuokkanen (2007), currently teaching at the University of Toronto, who has indigenized post-structuralist and post-colonial theory to reveal deep and convenient ignorance at the heart of centres of learning and ways of co-operatively re-making intellectual receptivity and academic value so that—literally and symbolically—the Deatnu-Tana River continues to flow for the benefit of all who live on its banks, ply its waters, and cross its bridges. However, there can be no effective education of others without continuous self-education. We are not interested in accumulating academic and cultural capital as individualistic, careerist profiteers but in co-producing, rethinking, and redistributing these kinds of capital outside the dominant capitalist models of investment and return.

The 1995 “Statement on the Co-operative Identity” (ICA, 2011a) produced at a time when “identity politics” was at its height in North American universities (Brennan, 2006) located identity in values and principles. It remains an extremely impressive and useful document today, powerful evidence from the ICA of consulting in good faith and finding inspiration and guidance among practitioners as well as scholars. The confidence of that definite article—*The Co-operative Identity*—comes from more than two centuries of experience and accomplishment, and from the need to find a niche mid the marketing clamour of the late twentieth century. But this is offset by the modesty and inclusiveness of the text that follows, and the specification of common social and cultural as well as economic needs. The extremes of possessive individualism and manic profiteering are clearly repudiated in the “Statement.” But the notion of apolitical membership seems worth revisiting, as does education as a major problem as well as a source of solutions for co-operators, so as to bring out social, cognitive, and ecological justice as key goals. There are equally opportunities in learning from Indigenous knowledge in current efforts to modify the seventh co-operative principle to “provide greater clarity around the obligation of the co-operative movement to defend the environment and to commit to its protection” (ICA, 2011b).

Inclusiveness and compassion and enlightened self-interest are very important, but a sharper articulation of the nature of the current economic orthodoxies may well be called for. After all, Robert Owen felt no need to mince his words in 1823 when he addressed “the distress which pervades the civilized parts of the world”: “The minute division of labour has materially deteriorated the human race, by dividing, and thereby weakening, their physical and mental powers; and a competition of individual interests, by creating a general opposition of inter-

ests, now destroys the real interests of society, and every individual of which it is composed” (1823, p. 2). We may, as this paper has tried to urge, see fit to reflect critically on the implications of the expression “civilized world” for Owen and his legion of critical and uncritical followers. As candid and trenchant as Owen at his best are Indigenous proponents of holistic stewardship of natural resources today. Shawn Atleo, Grand Chief of the Assembly of First Nations, has made the opportunities as well as the obligations relating to “Indigenous Potential” plain to the Government of Canada and all interested citizens. Chief Atleo and the many Indigenous scholars and elders whose struggles have impelled and informed his current intervention want to lead the current wave of innovation with a panache and ethical (and ecological) probity that Owen might have understood and admired. Using their gains at the UN and belated recognition of the potential of treaty federalism, Canada’s First Nations are looking to themselves but also to academics and legislators for a re-imagining of development wherein co-ops can move beyond their paternalistic and colonial past to make the ILO convention 169 (Indigenous and Tribal Peoples Convention, 1989) live more effectively than ever in sustainable mutualism. It is an endeavour more than worthy of 2012. It is a moment when we can learn from linking, and link our learning to teaching and teachings that can make our world a much more co-operative place.

## LESSONS FROM THE SO-CALLED MARGINS

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As the IHG tried to emulate in our home institution developments at the UN, and in particular the emergence of the Indigenous Humanities, we tried to link and learn, to model and grow the capacity for decolonizing universities and the knowledge systems that dominate their self-understanding and self-representation. At the same time we sought to legitimate Indigenous Knowledge inside and outside universities and, as we have said, we sought to do so outside the frames of paternalism and predation so dear to “academic capitalism” (Slaughter and Rhoades, 2004) and the “new managerialism” (Tuchman, 2008, pp. 64, 153). Following the co-operative/Indigenous filiation, we can affirm and illustrate solidarity on the margin, as it were, between Indigenous and non-Indigenous co-operatives (I.M. Findlay, 2003a). And there is a “new opportunity” to address and even redress some old injustices and persistent obstacles to economic activity that operates at variance to or in conflict with

free market ideology. As 2012 looms, the ICA can learn from the experience of Indigenous peoples at the United Nations while also drawing on its own accomplishments in that setting and in connections with social economy initiatives locally and globally. Possible lessons include the following:

First, never let frustration get the better of you, whether you are faced with indifference, willful misprision, or outright hostility. The Indigenous long march within elite institutions, at home and away, evinces a dignity and resolve neither apologetic nor impetuous—offering, indeed, a lesson to us all.

Second, know your own history (warts and all) so that you can more confidently interrupt the conversations of the dominant and require them to revisit and revise their own sense of how we come to be who we are and how we are.

Third, affirm difference as enrichment rather than as contamination or deficiency. This way, “the” market can be exposed as a bogus singularity that depends on political insidership, financial muscle, and academic alibis to defend and extend its reductive and hugely damaging view of how business must be done.

Fourth, look for allies and friends to join in coalitions of the really willing, coalitions intent on demystifying poverty in order more effectively to eradicate it.

Fifth, the three contributions of co-operatives highlighted by the International Year of Co-operatives (IYOC)—eradicating poverty, generating full employment, and facilitating social integration—and the three goals for IYOC—increasing public awareness about cooperatives and their contributions to socio-economic development and the achievement of the Millennium Development Goals; promoting the formation and growth of cooperatives; and encouraging Governments to establish policies, laws and regulations conducive to the formation, growth and stability of cooperatives—all benefit from scrutiny through an Indigenous lens. Just as plenary humanity should be accorded to all human beings, so the idea of poverty as an inescapable constituent of “the” economy must be rescued from the grim simplifications of neoliberalism and the elaborate defences of its academic militia and think-tank apologists, rescued and replenished in the name and interests of the inclusively human. Employment, likewise, cannot be allowed to mean intensified servitude and worse, with racialized labouring bodies, now landless and vulnerable, acting as a source of muscle and resources for disembodied, post-territorial, fast capitalists. Social integration, similarly, cannot be accepted as a convenient pretext for social control

and the homogenizing of societies through assimilation or extermination, surplus value ridding itself of surplus populations as *per* a well established colonial calculus. Here again the derivation of a key notion during the early years of Owenism is telling. It is a Malthusian question taken up by pseudonymous pamphleteers like “Mercator” in comparisons between the “superfluous population of the barbarous nations in the north of Europe” who were improved by assimilation by or emulation of “their more civilized neighbours” while Africans were apparently confined to a continent entirely lacking in civilization and the possibility of either “immigration or improvement” (Pinfold, p. 381). The idea of surplus humanity remained central to debates in political economy well into the nineteenth century, producing faction and absurdity irresistible to a great contrarian like William Cobbett in *Surplus Population and Poor-Law Bill, a comedy in three acts* in 1835. However, these dangers can be avoided only if goals are not exclusively generated at a notional centre and imposed on the world’s notional peripheries. Such centralized command control is a self-impooverishing move doomed to reproduce unjust hierarchy and ecological blight via cognitive imperialism.

Sixth, Indigenous scholars and practitioners are asking us to join them in envisioning and implementing a new planetary practice for our species (see, e.g., The Global Indigenous Women’s statement, 2011), one where Rochdale and Rocky Mountain House, Mondragon and Iqaluit can cooperate in countering and moving beyond insatiable consumption and the current global flows of poison and prosperity. There *are* reasons for hope, reasons well captured by Sa’ke’j Henderson in the following passage:

Indigenous perspectives reveal the quiet hub of true ecological civilization, the ability to live well within the biological constraints of surrounding life, and its various processes. These perspectives carry the teachings and wisdom of generating efforts with sustainable values, revealing the underlying interconnectedness and order of a vulnerable biosphere. ... These perspectives assisted in generating the largest cognitive transformation of humanity which declares that every place matters and has value. It has nurtured a cascading global uprising, a movement of ideas, to reclaim basic human rights in relation to the earth. The movement attached to this uprising has overrun Eurocentric ideologies of knowledge and power. In multiple sites, these perspectives have allowed peoples to confront despair, resignation, in-

tolerance, racism, injustice, and power with momentum, conflict, spirit, and heart. It has helped create a global moment that has been called the “blessed unrest” [Hawken, 2008. p. 63]. (Henderson, 2008, p. 63)

Before you dismiss this—or the rigour and eloquence of Rauna Kuokkanen and so many other

indigenous activist-intellectuals—as hopeless utopianism, think of an alliance between native seers, Rochdale pioneers, and New Mexico “bioneers.” Think also of what Indigenous peoples have accomplished in face of the means and might of the global progeny of Cortez, the global reach of “racial capitalism.” And think even more of what we can do if we make ‘race’ as well as poverty history.

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# BRITISH EMPIRE – THE FIRST GLOBAL CO-OPERATIVE DEVELOPMENT AGENCY

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## INTRODUCTION

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Co-operatives have existed on a global scale for more than 100 years. How they have been promoted in that time therefore offers lessons to contemporary co-operative development. This paper sets out to show that in the first half of the 20<sup>th</sup> century the British Empire played a major role in co-operative development in dependent territories. While there is evidence that other European Empires also encouraged the formation of co-operatives this paper claims that the British Empire was the first *global* co-operative development agency. In 1900 the Empire covered almost a quarter of the earth's surface and governed a quarter of the world's population. Co-operatives formed throughout the Empire. This paper will focus on co-operatives promoted by governments within dependent territories as part of the Empire's wider development policies.

Many Britons today feel uneasy about their country's imperial past, Co-operators particularly so because they clearly see a tension between imperialism and co-operation. Imperialism connotes foreign domination and the exploitation of indigenous populations and their resources while co-operation espouses empowerment, equality, democratic control, self-determination and self management. Perforce imperialism and co-operation are strange bedfellows. This paper sets out to show how and why they became reconciled and falls into two parts. The first describes what happened while the second explores ramifications

## WHAT HAPPENED?

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### THE BRITISH EMPIRE IN 1900

The British Empire arose over the previous three centuries in a number of different ways. In the 16<sup>th</sup> century British naval power increased to fight off possible Spanish attacks. Linked to this expansion was growing trade particularly in the West Indies, some of it piratical. During the 17<sup>th</sup> century Britain's religious exiles began to establish her first American colonies. At the end of that century the establishment of the Bank of England reflected Britain's growing commercial capacity including the financing of trading enterprises such as the Hudson Bay Company in Canada and the East India Company in SE Asia. Both were soon competing with other European Empires sometimes leading to armed conflict that required British naval and military power to preserve British trading interests. British rule invariably followed giving rise to the saying "The flag followed trade".

Such haphazard developments occurred over time with little national consciousness of Empire. That changed in the 19<sup>th</sup> century. A century earlier Britain lost her American colonies and needed to find new penal settlements in Australia. Many ex-convicts decided to settle there after completing their sentences but with families back in Britain two-way communications grew.

The Indian Mutiny in 1857 also sharpened perceptions of empire besides changing imperial administration in the sub-continent. Prerogatives and functions of the East India Company were transferred to the newly created India Office which reported to the British Parliament and became responsible for the Indian Civil Service. This was one of the two major organs of the Empire, the other being the Colonial Service.

A more aggressive phase of British imperialism developed in the late 19<sup>th</sup> century, roughly coinciding with what has generally become known as the “Scramble for Africa” and was labelled the “new imperialism”. A prominent proponent was Cecil Rhodes (1853-1902) whose British South Africa Company led Britain’s advance in Southern Africa.

New imperialism did not go unquestioned in Britain. Some Whig or Liberal politicians were less convinced than their Tory or Conservative opponents thus encouraging pluralistic approaches to the governance and administration of the Empire. The Conservative Prime Minister, Benjamin Disraeli (1804-81) was an ardent imperialist who led legislation in 1876 to make Queen Victoria Empress of India. His Liberal opponent, the three times Prime Minister William Gladstone (1809-98) questioned the costs of Empire to the British exchequer. On one occasion he said to Cecil Rhodes:

“Our burden is too great....We have too much to do, Mr. Rhodes..... Apart from increasing our burden in every part of the world, what advantage do you see to the English race in acquisition of new territory?”

Rhodes’ reply summed up an important dilemma.

“Great Britain is a very small island. Great Britain’s position depends on her trade, and if we do not open up the dependencies of the world which are at present devoted to barbarism we shall shut out the world’s trade...It must be brought home to you that your trade is the world, and your life is the world, not England. That is why you must deal with these questions of expansion and retention of the world.” (1)

Trade had become increasingly important as Britain became “the workshop of the world following her agricultural and industrial revolutions of the 18<sup>th</sup> and 19<sup>th</sup> centuries. Factory production encouraged urbanisation at a time when Britain was already experiencing rapid population growth. Consequently her ability to trade with the rest of the world became ever more important. It has been observed that a “global economy in terms of trade networks, became an enormously more tightly articulated and productive one” in the late 19<sup>th</sup> century.

“Dominating the entire structure were British production, British commerce and British financial services and, it might be added, British economic ideology, as free markets and free trade came to be perceived as the wave of the

future by enlightened opinion throughout the civilised world” (2)

Gladstone remained unconvinced either of the economics or morality of the “new imperialism”, declaring with resonance today that the “sanctity of life in the hill villages of Afghanistan, among the winter snows, is as inviolable in the eyes of Almighty God as can be your own.” (3)

Plurality in British and imperial politics allowed space for co-operative ideas to emerge. To trace their development we first need to note the nature of British government in 1900. It was still strongly aristocratic in both Houses of Parliament and in administration at home and in the Empire.

Two men illustrate this. One is Albert, fourth Earl Grey (1851-1917) who came from a family of leading Whig or Liberal statesmen. His great uncle, the second Earl Grey (1764-1845) was Prime Minister when the 1832 Reform Act began British Parliamentary reform and the extension of the franchise. He was still Prime Minister a year later when Parliament abolished slavery in British colonies. His son, the third Earl (1802-1894) served as British Colonial Secretary and his nephew, the fourth Earl succeeded to the title in 1894.

In the House of Commons and later the House of Lords, Grey showed strong interest in colonial matters. In 1896 he was appointed Administrator of Rhodesia and between 1904 and 1911 was Governor General of Canada. He was also prominent in the British Co-operative Movement and President of the International Co-operative Alliance between 1895 and 1907. With close family links to other imperial office holders, a brother-in-law, Earl Minto preceded him as Governor-General of Canada, Grey was likely to have enthused about co-operatives to aristocratic audiences thus helping to have popularised them.

A close associate of Grey was Sir Horace Plunkett (1854-1932) who sat as a Unionist MP. He was also active in the International Co-operative Alliance and had argued at its formation that it should be an Alliance of all kinds of co-operatives including agricultural co-operatives that he was pioneering in Ireland.

Plunkett was a junior member of an aristocratic Anglo/Irish family with both Protestant and Catholic wings. His co-operative motivation stemmed from his analysis of the Irish economy. He initially attempted to develop retail societies but their lack of success led him to conclude that Ireland was in great need of agricultural reform and that could be assisted by improving the position of Irish peasants through co-operatives. He helped develop marketing and supply agricultural societies and

co-operative support organisations including the Irish Agricultural Organisation Society and the Irish Agricultural Wholesale Society. He also recognised that co-operative development needed to be assisted by research. In 1914 he was one of two founders of the Co-operative Reference Library in Dublin. Five years later he established the Plunkett Foundation for co-operative Studies. It was based in London and the Co-operative Reference Library was moved there to become the base for the Foundation's research and publications. During the inter-war years it advised many colonial governments on co-operative legislation and became an important focal point organising seminars and summer schools. All in all the Plunkett Foundation became a significant organisation in support of colonial co-operative development.

Like Grey Plunkett was also a politician. He sat in the Westminster Parliament as a Unionist MP between 1892 and 1900 where he pressed for agricultural reform in Ireland. Like Grey, Plunkett had extensive aristocratic connections he called upon to help with co-operative developments. Two instances illustrate. One concerned Lord Aberdeen (1847-1934) who was Viceroy of Ireland in 1886 and again between 1905 and 1915. He also served as Governor-General of Canada between 1893 and 1898. In 1888 an Irish Exhibition was held in London and Plunkett persuaded the Committee of the Southern Section of the Co-operative Union to call a meeting during it to discuss co-operative development in Ireland. The chairman of the meeting was Lord Aberdeen. Although not then Viceroy of Ireland and thus the Sovereign's personal represent his willingness to preside suggests an interest in co-operatives within the highest echelons of Empire.

The second example of Plunkett's use of aristocratic influence involved a member of his own family, Lord Plunkett who sat in the House of Lords. It concerned the passage of a Societies Borrowing Powers Act of 1898 intended to assist Irish village banks run upon co-operative lines. Sir Horace was able to steer the Bill through the House of Commons. Sir Horace but sought the help of Lord Plunkett to see it through House of Lords. Lord Plunkett was already an enthusiastic co-operative supporter, serving on the committee of the Irish Agricultural Organisation Society between 1896 and 1903. The following years he became Governor-General of New Zealand where it may be supposed his enthusiasm for co-operatives continued. At the same time Earl Grey was Governor General of Canada and there is extensive evidence of his support for and encouragement of Canadian Co-operatives.

In the early 1900s there was still heavy aristocratic influence in British and imperial government. Both Grey and Plunkett proved adept at using that influence for co-operative purposes at home and in the Empire. They were helped by their involvement in the young International Co-operative Alliance, founded in London in 1895. Grey served as its President between 1895 and 1907 and Plunkett sat on its Central Committee from where they gained knowledge of co-operatives elsewhere in Europe and beyond. They were also in close contact with Henry Wolff (1840-1930) who was not aristocratic. He was born in Leeds but studied at German universities. Later he farmed in Germany where he came into contact with early co-operatives and their leaders. These links and those with other European co-operatives helped when he chaired the preliminary committee organising the inaugural Congress of the International Co-operative Alliance in 1895 and afterwards became Chair of the Alliance's Executive Committee. In effect Wolff had become the young ICA's chief administrator.

We have mentioned that Grey became Administrator of Rhodesia and Governor-General of Canada while Plunkett's cousin, the Lord Plunkett held the latter position in New Zealand. Both territories, like those of Australia and from 1909 the Union of South Africa were largely self-governing dominions within the Empire. The British Sovereign, who appointed their Governor-Generals or High Commissioners, remained their Head of State. Their legislation had to go before the British Parliament but was largely rubber-stamped.

These dominions comprised only one imperial category. There were others. India, for example was an Empire in itself comprising princely states before ever the British arrived. Queen Victoria was thus Empress of India rather than the whole British Empire. India's administration, conducted by the India Office was therefore distinct and separate from any other in the Empire.

The lower end of the Empire comprised a divergent collection of colonies, protectorates and mandated territories. These were administered by the Colonial Office. It had evolved over time whereas the India Office resulted from a specific event, the Indian Mutiny in 1857. In 1858 the British Parliament passed the India Act which abolished the powers and prerogatives of the East India Company. The position of Viceroy or Governor-General as the Sovereign's representative remained but the British Parliament appointed a Secretary of State answerable to Parliament for the overall administration of India. He was assisted by a council of fifteen, eight appointed by the Crown and seven elected by the directors of the East India Company.

The 1858 India Act merged the Company's Army with the British Army and the Secretary of State became responsible for the Indian Civil Service. (4)

Within India itself there was a very narrowly based administration. The Viceroy or Governor-General, supported by a Council headed the government and was based in Calcutta. Two provincial governments existed in Bombay and Madras each again with a Council comprising high level officials and personages. The Viceroy, the two provincial governors and their councils were the government of India. Under the India Councils Act, 1861, they conducted executive business and passed legislation. A further Councils Act in 1892 provided for limited Indian participation. Generally, though, Indian government was narrowly based and hierarchical. It differed greatly from governments in Britain and the largely self-governing white settler dominions where Parliamentary reform and a widening of the electoral franchise were occurring.

The nature of Indian administration is significant because it formed the framework for the first influential colonial co-operative legislation, namely the Co-operative Credit Societies Act, India, 1904. This was passed in a narrowly based legislative Council rather than a lower House of Parliament which made it somewhat paternalistic. It was also paternalistic in other ways. Whereas the Industrial and Provident Societies' Acts in Britain were passed after co-operatives had formed and could to some extent reflect their needs, the Indian 1904 Act was passed in advance of the formation of any co-operatives. It was therefore prescriptive, anticipating rather than reflecting needs. The fact that the Act proved appropriate and became the model for similar Acts throughout the British Empire reflect its careful preparation including study tours of successful European Co-operative movements by members of the Indian Civil Service. We should now briefly examine what kind of men joined this.

They were recruited by the Secretary of State for India in London, were male and from the upper or professional middle classes. Their abilities were usually noted early at their public schools or at the old British Universities where they graduated.

Entry requirements into the CIS were high. Two difficult and highly competitive examinations had to be passed, the second being attempted only after success in the first. Candidates had to pass compulsory papers in the Indian Penal Code and procedures, the principal language of an Indian area and the Indian Evidence and Contracts Acts. Optional papers included other aspects of Indian law and languages. Even after examination success candidates still had to prove that they could complete long journeys on horseback, success in which

determined their salary level. Once in post they could be required them in extreme circumstances to work 24 hours.

Candidates heading for service in Malaya (Malaysia), Hong Kong and Ceylon (Sri Lanka) had to pass the Indian Civil Service tests but came under the Colonial Office. Others joining the Colonial Service faced less rigorous entrance examinations but increased demands to learn on the job. Once in post they could be expected to stay in their positions for long periods, perhaps even for the rest of their working lives. (5)

Like their political masters the political views of Officers of the Indian and Colonial Services tended to divide between the customary Tory/Conservative and Whig/Liberal traditions. Those from the latter tended to be more receptive to co-operative ideas, possibly influenced by Grey, Plunkett and Wolff. Wolff was not a politician but his growing eminence in Co-operative theory led to his being consulted on the proposed Indian legislation. He was also influential among the "India of London" made up of retired Indian Civil Servants and members of the Indian Parliamentary Committee and the National Indian Association.

The point being emphasised is that early co-operative development in dependent territories in the British Empire as distinct from the white settler colonies that had already achieved some degree of self-government was prescriptive. It was also dependent on the sympathy of officers of the Indian and Colonial Services who came from classes quite different from those for whom they were legislating. This made British imperial co-operative development quite different from that spontaneously occurring among the British working classes at home. It was different but still effective due in no small part to co-operatives being promoted by government officials persuaded of the merits of Co-operation.

### THREE PERIODS OF CO-OPERATIVE DEVELOPMENT

Three periods can be discerned in British imperial co-operative development. The first between 1900 and 1918 saw the propagation of co-operative ideas influenced by figures such as Grey, Plunkett and Wolff. It was also the period of early colonial co-operative legislation that set in train subsequent developments. A point to note in this connection is that British administrations tended to preserve local legal traditions except where they ran counter to outlawed practices like slavery or suttee by Indian widows. Thus co-operative legislation was able to reflect territorial traditions. A second pe-

riod occurred between the two World Wars. It was characterised by the increasing professionalization of those involved in co-operative development and by a growing literature. (6) In other words, experience was being written up and codified.

The third period occurred between the end of the Second World War and the end of the British Empire in the 1960s. In Britain a Labour government pursued a policy of de-colonisation. Already part of Britain's colonial development programmes, co-operatives were now as recognised building blocks of civic society in territories approaching independence. The emerging new international order also looked on them favourably. This was being shaped by American antipathy to empires, the war-time aims of the Allies including the right of self-determination and freedom from want, and the emergence of the United Nations system. Recognition of the role co-operatives had played in war-time relief, rehabilitation and reconstruction came in 1946 when the International Co-operative Alliance became one of the first three international non-governmental organisations to be granted Category A Consultative status with the United Nations. Co-operatives had established their credibility and were now firmly on major development agendas.

## INDIA

Considerable continuity existed between the three periods outlined above. Their starting point came with the passing of the Co-operative Credit Societies, India Act in 1904. Various measures were sought to counter recurring famines, rural poverty and indebtedness. In 1882, Sir William Wedderburn (1838-1918), a District Judge in Poona proposed the setting up of an agricultural bank to lend to peasants on reasonable terms in an attempt to rescue them from extortionate money lenders. Some consider Wedderburn the first champion of co-operative credit in India. Wolff disagreed when he observed that: "The principle operation of the proposed bank was to borrow money at moderate interest from big capitalists, whether Indian or European, and to hand it over to ryots at a higher rate, but at once considerably lower than the rates charged by the socar..." (7) In other words Wedderburn's proposals lacked mutuality.

Mutuality, however, became a central feature of the 1904 legislation and thus represented an advance on Wedderburn's proposals. What had occurred in the meantime was the growth of thrift and credit societies in Germany. They incorporated the ideas of Friedrich Wilhelm Raiffeisen (1818-1888) and Franz Hermann Schulze-Delitzsch

(1808-1883) and their success together with that of Plunkett in Ireland provided examples of effective co-operative development to others elsewhere. These included members of the Indian Civil Service, two of whom undertook study tours to examine their methods and their outcomes.

The reports of these two senior members of the Indian Civil Service led to the setting up in 1903 of a Committee to consider *The Establishment of Co-operative Credit Societies in India*. From the outset the Committee's report asserted that "The 'agricultural banks' which have been so successful in improving the condition of the poorer classes in European countries rest upon co-operative credit, and we have confined our attention to banking on this basis." (8)

The Committee's proposals led to a draft Bill which was introduced to the Indian Legislative Council by Sir Denzil Ibbetson. He declared that the purpose of thrift and credit societies was:

"...the encouragement of individual thrift, and of mutual co-operation among the members, with a view to the utilisation of their combined credit by the aid of their intimate knowledge of one another's needs and capacities, and of the pressure of local public opinion."

He continued:

"...that new members shall be admitted by election only, thus securing that mutual confidence which is the only foundation of co-operation; that a man must be a member before he can borrow from the Society and must in that capacity have contributed to the funds of the Society....." (9)

The Act which followed applied to the rural poor and urban artisans of limited means. Drawing from the Raiffeisen system it laid down that co-operatives formed by the rural poor should operate with unlimited liability. The theory was that the fear of imprudent lending strengthened members' control of each others' borrowing so reinforcing their mutuality. Urban co-operatives could but not necessarily be granted limited liability.

The Act was to be an amended version of Indian Company Law with sections added to take account of Co-operative Principles. A version of the British Industrial and Co-operative Societies Acts was not chosen because that type of legislation would be new to India whereas company law was already familiar. Another reason was that the British Industrial and Provident Societies Acts assumed an existing legal tradition of association among the poor

or dispossessed. Even in Britain this was recent having grown only since the repeal of the Combination Acts in 1825. In India it did not exist

A feature common to the Co-operative Credit societies Act, India, 1904 and the British Industrial and Provident Societies Acts was the post of Registrar. His role was considerably strengthened in the Indian legislation. In addition to the customary functions of ensuring the observance of Co-operative Principles he was given stronger powers of promotion and supervision which included auditing. It was a far more developmental role than that of his British counterpart.

In 1912 a further Co-operative Act was passed: it applied to all kinds of co-operative across India. The new Act also strengthened the powers of the Co-operative Registrar who was a member of the Indian Civil Service. That Service became pivotal in the success of the quick take-off of co-operatives in India. In Britain co-operatives had shown themselves capable of successful establishment independent of the State and they related to the State on matters of law and taxation. They also grew in a favourable climate in that they reflected ruling liberal elites' ideas of individual responsibility allied to a collective good, of social contract and personal rights. Similar preconditions did not exist in imperially ruled India. Consequently early Indian co-operation could not be the natural growth that co-operation had been in Britain and also increasingly in the near-autonomous white settler dominions of Canada, Australia, New Zealand and South Africa.

Despite this there were quick advances. Some local Indian leaders were keen to encourage co-operatives and the 1904 and 1912 Acts proved to be well-drafted, appropriate and durable. They provided a model for co-operative legislation throughout many British dependent territories. (10)

Implementation of the Acts lay with the Indian Civil Service which proved to be a strong and sympathetic Service. This may be reckoned a factor in the favourable climate surrounding Indian co-operative development. A similar observation may be made in respect of successful co-operative development in late 19<sup>th</sup> century Germany where a strong Civil Service oversaw extensive Prussian agricultural reforms that became the framework for the Raiffeisen and Schulze-Delitzsch thrift and credit co-operatives. In Ireland where a more ambivalent British Civil Service existed, Plunkett's progress was more problematic.

As previously noted registrars of Indian co-operatives were members of the Indian Civil Service. They helped spread knowledge of early Indian co-operative legislation throughout the rest of the British Empire which provided a vast communi-

cations network for the transfer of ideas and experiences. Co-operative registrars in India held periodic conferences where they met and discussed co-operatives. They also wrote up their experiences so beginning a literature of co-operative development. As Margaret Digby observed, the Indian co-operative legislation was soon "carried by its own reputation and by the writings and travels of men like Mr. H. Calvert, Mr. C.F. Strickland and Sir Malcolm Darling, who had first been concerned with its administration in India". (11)

### INSTITUTION BUILDING AND PROFESSIONALISATION OF CO-OPERATIVE DEVELOPMENT

Codification of experience in India and elsewhere encouraged specialization among British Colonial and Indian Civil Service officers. Co-operative development became a distinct branch of government, conducted either in separate Co-operative Ministries or in Co-operative Departments within Ministries of Agriculture. The most senior officials within these departments headed by the co-operative registrar were British.

However, it was official policy to recruit at lower levels increasing numbers from indigenous populations. (12)

Increasing co-operative specialization and codification prompted the creation of institutions to assist co-operative development. Within co-operative movements Unions and Federations were formed by primary co-operatives to carry out specialist functions delegated to them. Overall there was a growing sense of identity that involved ideology as well as business and development. For example, many chief Co-operative Registrars headed their Annual Reports "Co-operation" rather than "Co-operatives and H. Calvert one of India's early Co-operative Registrars declared:

"The absolutely necessary principles are that people should agree to associate voluntarily on terms of equality in order to secure satisfaction of some common need. Human beings and not capitalists, bind themselves together to "work each for all and all for each." (13)

This can be considered an ideological statement. A baton was being passed. Earl Grey died in 1917. Henry Wolff was now an old man but still writing about co-operatives. In 1927 his book *Co-operation in India* was published (14) and provides a useful account of developments. Sir Horace Plunkett was still very active and his establishment in 1919 of the Plunkett foundation as a research and advisory ser-

vice for agricultural co-operation is a good example of institution building. Plunkett had long recognised the importance to co-operative development of research and availability of reference materials. In 1914 in Dublin he had been one of the two founders of the Co-operative Reference Library. One of its early Librarians was Francis Cruise O'Brien, father of the more famous Connor Cruise O'Brien. When the Plunkett Foundation was established in London in 1919 the Co-operative Reference Library was moved and became part of it. (15)

Besides its research and advisory work, the Foundation helped raise consciousness of co-operatives. In 1925 it organised a conference as part of the Empire Exhibition held in Wembley, London which brought together agricultural co-operative leaders attending the Exhibition. Presented to them was the report of a survey undertaken by the Foundation of agricultural co-operatives throughout the British Empire. It provided an important snapshot of development among agricultural co-operatives at that time. The conference was attended by almost 160 representatives and debated issues arising from the report including co-operatives' relationship with the State. Not only was this pertinent to the promotion of co-operatives in British dependent territories but also because of the emphasis that Co-operative Principles placed on co-operatives being voluntary and autonomous organisations independent of the State. (16)

During the inter-war years the Plunkett Foundation became a major player in co-operative development within the British Empire. It brought Co-operative Registrars and other staff working in co-operatives together in conferences and seminars and produced books and promotional literature. Margaret Digby (1900-1982) became the Foundation's Research Assistant working closely with Sir Horace and its Secretary and Director in 1934. Apart from war-time service in the Ministry of Economic Warfare and the Foreign Office, she retained that position until her retirement in 1967. She added considerably to the literature of co-operative development and became an adviser to governments on co-operative legislation before and after the Second World War.

The International Co-operative Alliance played a less direct role in co-operative development but was nonetheless important in providing another forum for exchange of information and experience. It was also the custodian of Co-operative Principles and conducted a review of these in the 1930s. Almost a centenary had passed since Rochdale had first formulated them and they needed a re-statement in the light of subsequent experience. As far as Co-operative Registrars and others involved in

co-operative development were concerned the review's conclusions provided a bench mark which enabled them to better judge what was a true co-operative and what was not. By their nature civil servants like clear guidelines!

The ICA's review concluded that there were four basic Co-operative Principles:

- Open membership
- Democratic control
- Distribution of the surplus proportionate to members' transaction
- Limited interest on capital

Three further Principles should be observed but were not essential for ICA membership:

- Political and religious neutrality
- Cash trading
- Promotion of Education

The review also concluded that in their workings co-operatives should be imbued with the "co-operative spirit", (17) a point taken up again by H. Calvert in his book, *The Law and Principles of Co-operation*. He wrote:

"The key to the success of the co-operative method of doing farm business is to develop the co-operative spirit, that is the willingness and desire to sink individual opinions and interests to such an extent that a group of men can work together for common interests. When this spirit is developed to a high degree it means a sort of loyalty..." (18)

In this book also, and possibly with co-operative experiences in the Union of Socialist Soviet Republics in mind, Calvert admitted that compulsory membership could be beneficial but its result "can never be the same as voluntary co-operation. Voluntary membership not only strengthens individual responsibility, but it differentiates co-operation from State social reform." (19)

Calvert dedicated his *Law and Principles of Co-operation* to two other leading co-operative registrars with whom he had worked closely in India, namely "M. L. Darling and C.F. Strickland". In 1933, the same year that *The Law and Principles of Co-operation* was published, Strickland also wrote a seminal work entitled *Co-operation for Africa*. (20) He recognised as Calvert had, the extent to which co-operative development had to be shaped by its location and target population. Having contrasted India and Africa, Strickland then devoted a chapter to African Society and the kinds of co-operative development appropriate to it. (21)

Like Calvert he speaks of “Co-operation”. He believed its Principles to be “unalterable”, although there could be “variability” in their application. He also spoke of the common goals of different kinds of co-operative.

“The consumers’ stores of England, the great agricultural sale organisations of North America and Australia, bacon factories in Denmark, labourers’ and craftsmen’s societies in Italy, and – most universal of all – the People’s banks and tiny credit societies from Belgium to Japan, from Iceland to the Transkei Bantus, are directed towards the same goal. They seek (1) to relieve consumer and producer from the charges of every intermediary – merchant, retailer, contractor, or moneylender – whose assistance, if useful in the beginning, has now become unnecessary or expensive, and thus (2) by ensuring to each man a full and fair return for his work, to secure to him the enjoyment of a better life.”

Later Strickland stresses that co-operation was concerned with issues wider than the merely economic:

“...members in their association are aiming at something more than wealth, (they) are trying to reach the general good in which wealth is only a part, and to become better citizens of a finer State.” (22)

Calvert and Strickland reveal themselves to be liberal-minded civil servants as was W.H.K. Campbell who worked when a young man with Strickland but continued working as a Co-operative Registrar until the mid 19050s. He warned that peasants being used to being exploited were customarily suspicious of all men including well-meaning colonial officers seeking to help them. (23) Campbell speaks of such men as the “educated pioneer” reflecting perhaps a shift in British imperial thinking.

Like Calvert and Strickland Campbell recognised that successful co-operative development could be a slow process. Often they worked with people who lacked an ingrained sense of personal advancement. He also queried whether examples of successful European co-operative development could be replicated in quite different settings. Above all, nothing could be achieved until the “suspicion of the co-operators has been allayed, and their confidence has been won.” (24) The Co-operative Registrar and his staff:

“.....has to light a fire of enthusiasm and prevent it going out, guiding meanwhile the activities of enthusiasts, devising constitutions and forms of accounts, and shielding them from what might be costly errors....The Registrar has to apply to his work a nicely modulated blend of caution. I am brave as anyone when it is a question of losing a certain amount of government money in a good cause. The trouble with Co-operation in new countries is that the stakes with which the game has to be played are the savings for the most part of the very poor people. These have not been easily acquired, nor has it been easy to persuade their owners to risk them in a co-operative society....If the stakes are lost, the effect on the owners and the resulting set-back to the prospect of the Movement are serious beyond all proportion to the amount of money which was involved.” (25)

Historically this is an interesting statement because it recalls a time in the developed and developing world where co-operatives were set up with their members’ own capital. Agricultural co-operatives had some record in seeking subsidies but these were limited and frowned upon by other kinds of co-operative that were self-funding. Of course there could be hidden subsidies of the kind that co-operatives in Ireland and Denmark received in the form of technical assistance and training; and, government promotion of co-operatives in British colonial territories represented another kind of subsidy. Campbell’s statement, though, recalls a past co-operative tradition that has weakened for many reasons but which remained strong in the first half of the 20<sup>th</sup> century even among the very poorest.

We may also observe that Co-operative Registrars exemplified by those quoted above were colonial administrators who nevertheless had a strong grasp of co-operative theory and Co-operative Principles.

## THE KINDS OF CO-OPERATIVE PROMOTED

We should briefly note the variety of co-operatives encouraged and supported by British colonial administrators. Strickland reminded us that at a more basic level co-operatives’ functions were “(1) to relieve consumer and producer from the charges of every intermediary – merchant, retailer, contractor, or moneylender – whose assistance, if useful in the beginning, has now become unnecessary or expensive, and thus (2) by ensuring to each man a full and fair return for his work, to secure to him the enjoyment of a better life.” Closely allied were the needs of target populations. In India this

had been to reduce rural indebtedness, the pernicious hold of money-lenders and so eventually revitalise agriculture thus reducing the risk of famine and its threat to law and order. Closely linked was what territories produced. In the first half of the 20<sup>th</sup> century and throughout much of the British Empire this was agricultural production which fed into a system of imperial trade complementing Britain's heavy industrial output. Over time that balance shifted but in the early 20<sup>th</sup> century, a high proportion of colonial co-operatives were linked to cash crops and agricultural production and took the form of marketing and supply societies or thrift and credit co-operatives.

The need to settle land proved another incentive for co-operative development. An early example occurred in Rhodesia under the encouragement of Earl Grey and the Rhodes Foundation set up after the death of Cecil Rhodes in 1902. The need was to encourage British farmers to migrate and settle there but initial farming costs were high and a disincentive. Elsewhere co-operatives were proving that they could increase economies of scale and supply and marketing co-operatives were encouraged in Rhodesia to try to improve returns to farmers. The establishment of consumer co-operatives was also considered in order to reduce the high costs that merchants were charging. In this case the threat of co-operative action proved enough to lower prices. The threat was retained but at that time no consumer societies were actually formed.

Palestine was another territory where the drive for land settlement helped encourage co-operative formation. In 1918 the League of Nations had given Britain mandatory powers over Palestine which she administered between 1920 and 1948. It was official policy to encourage co-operatives among both Arab and Jewish communities but a greater number and variety of societies formed among Jews rather than the Arabs. They seemed keen to colonise the land promised to them in the Balfour Declaration of 1917 which Britain used as a strategy for retaining Zionist support during the First World War.

Elsewhere in Africa, in Bechuanaland for example, cattle co-operatives were formed and in South Africa, agricultural, horticultural and viticulture co-operatives. In Burma and Malaya agricultural and horticultural co-operatives emerged along with the traditional thrift and credit societies. All had close relationship with a territory's stage of economic development. The more advanced the development the greater the variety of co-operatives. For example those in Malaya came to include housing, medical and insurance co-operatives.

Thrift and credit societies were also developing quickly among expanding urban populations.

Generally speaking, consumer co-operatives that had developed so quickly in Britain and elsewhere in 19<sup>th</sup> century Europe with growing industrialisation and urbanisation grew more slowly elsewhere in the British Empire. As Plunkett had found in Ireland in the late 19<sup>th</sup> century poor communities involved in marginal agriculture had little regular cash income to provide the basis for successful retail societies. Nevertheless, consumer co-operatives were actively promoted in Ceylon (Sri Lanka) during the Second World War. Japanese threats to Burma and India raised concerns for Ceylon. Many of her Indian and Malayan private shopkeepers fled and there was an immediate need to fill the gap they left and to distribute rationed goods fairly. A government programme to set up consumer co-operatives with compulsory rather than voluntary membership was introduced. The need was great but the solution broke a fundamental Co-operative Principle. Until that time British colonial administration encouraged the formation of voluntary co-operatives. The Ceylonese war time experience, however, anticipated some of the more interventionist approaches to co-operative development that occurred in post-colonial territories after independence.

## COLONIAL CO-OPERATIVES AT THE END OF EMPIRE

Co-operative development was part of wider development programmes in the British Empire. In earlier years that had evolved but became recognised as a specialist function in the Colonial Development Act of 1929. In 1940 its provisions were widened to include welfare and economic development, two areas in which colonial co-operatives had already established a good track record.

The years after World War Two saw a change from imperial co-operative development to that occurring under a new international systems led by the United Nations. The old European empires were in decline due the weight of their own contradictions and deficiencies but also because the War had sharpened ideas about various freedoms. The right to self-determination became one of the war aims of the Allies and the embryonic United Nations system spoke of other freedoms such as "freedom from want." Not only had co-operatives had a track record of development within the British Empire but had assisted embryonic UN agencies in relief, rehabilitation and reconstruction programmes during the war. These efforts were

channeled through the International Co-operative Alliance which became one of the first three organisations to gain Category A Consultative status with the United Nations in 1946.

Co-operatives had risen up the British as well as the international, agenda. A number of British left of centre organisations had anticipated the end of the British Empire. One was the Fabian Society which in 1941 had set up its Colonial Bureau. As the War neared its end this set up a Special Committee to report on what co-operatives had already achieved and what they might achieve in the future. The Special Committee's Report was published in 1945 under the title of *Co-operation in the Colonies* (26). In the same year a Labour Government committed to the end of Empire was elected and the Fabian report helped influence its colonial policy in relation to co-operatives. A member of the Special Committee was Arthur Creech Jones, MP who became Colonial Secretary in the Labour Government. We might note that the Preface to the Report was written by C.F. Strickland, one of the notable Co-operative Registrars previously quoted. Two members of the Committee also previously mentioned were Sir Malcolm Darling, another leading Registrar and Margaret Digby, Secretary of the Plunkett Foundation.

In the wake of the Report and the greater emphasis placed on co-operatives the British Colonial Office in 1947 appointed an Advisor on Co-operatives. He was B.J. Surridge who had served as Registrar of Co-operatives in Cyprus between 1934 and 1943 and later became a Vice Chair and Trustee of the Plunkett Foundation.

The end of Empire came quickly. India, the newly created Pakistan and Burma became independent in 1947 Ceylon a year later when Britain also withdrew from Palestine and Israel was created. In the following decade the Gold Coast (Ghana), Nigeria, Cyprus, the Sudan and many other territories gained independence. By the 1960s the British Empire had ended but co-operatives, as an imperial inheritance continued in most newly independent states.

They had been part of Britain's liberal tradition in which Prof. Niall Ferguson saw something of the "self-liquidating" character of the British Empire:

"...what is very striking about the history of Empire is that whenever the British were behaving despotically, there was almost always a liberal critique of that behaviour from within British society. Indeed, so powerful and consistent was this tendency to judge Britain's imperial conduct by the yardstick of liberty that it gave the British Empire something of a self-liquidating

character. Once a colonised society had sufficiently adopted the other institutions the British brought with them, it became very hard for the British to prohibit their political liberty to which they attached so much significance for themselves." (27)

Co-operatives were very much part of that tradition. This may mean that we shall eventually find that they proved stronger and longer lasting than imperialism.

## REFLECTIONS ON THE ABOVE

### UNIVERSALITY OF CO-OPERATIVES

The above is a narrative but one that prompts a number of reflections. One is on the universality of co-operatives. The British Empire was able to sustain a policy of co-operative development for some sixty years or more because co-operatives proved versatile and universal. Within the Co-operative Movement theorists have claimed that co-operatives are universal because they are open to all classes through their principle of "open membership"; (28)) also because they are shown to have formed in most sectors of economy and all types of economy. (29) The British Empire undoubtedly found them as ubiquitous as public and private companies with the added advantage that they drew into economic activity those who had not previously wielded economic power. Thus they raised living standards and enlarged economies. Co-operatives' universality assisted their global spread through the British Empire. Although this paper has been primarily concerned with their development through government promotion we should note that the vast populations the Empire encouraged also prompted the spontaneous formation of many other co-operatives.

### POPULATION MOVEMENTS

The British Empire was responsible for moving vast numbers of people around the globe and knowledge and experience of co-operatives often went with them. In addition to members of the massive Colonial and Indian Civil Services numerous Britons worked in the Empire. They did so in its major trading companies and other kinds of businesses including the two British Co-operative Wholesale Societies which established overseas depots, many within the Empire. Thousands of other Britons, either under government schemes or independently emigrated to Canada, Australia, New Zealand and South Africa.

Systems of indentured labour also encouraged the movement of people. Alternative supplies of labour were needed when Britain outlawed slavery in 1833. This was under a Whig administration led by the second Earl Grey, great uncle to the fourth and co-operative Earl Grey. Indentured workers, many Indian were recruited for fixed periods and were employed in other parts of the Empire, particularly SE Asia, East Africa and the British West Indies. Many settled permanently in their new locations where some set up co-operatives. In the second half of the 20<sup>th</sup> century some of the descendents of these indentured labourers moved to Britain as the “mother country”. When those from the West Indies began to form credit unions few probably realised that the genesis of these co-operatives lay in the Co-operative Thrift and Credit Societies Act, India, 1904!

### **ROLE OF THE INTERNATIONAL CO-OPERATIVE ALLIANCE AND THE PLUNKETT FOUNDATION**

Occasional references have been made to the International Co-operative Alliance. Three of its leaders, Earl Grey, Sir Horace Plunkett and Henry Wolff first spearheaded co-operative ideas in the British Empire. While their links with the International Co-operative Alliance were coincidental it provided them with insights into member co-operative movements. Important also was the Plunkett Foundation which, together with the ICA became a focal point and forum for exchange of co-operative experiences. Both organisations built extensive international libraries and archives which provided reference and research materials and facilitated the production of co-operative literature including bibliographies and dictionaries. Such services contributed to effective co-operative development in the British Empire.

In particular, the ICA helped shape the ideological elements of British imperial co-operative development which we saw reflected in the writings of leading Co-operative Registrars. Particularly important was the ICA's review of Co-operative Principles in the 1930s which provided for British imperial co-operative developers clear guidelines on what constituted a true co-operative.

The role that emulation can play in successful co-operative development should be considered. India's first co-operative legislation owed much to the findings of study tours undertaken by senior officers of the Civil Service of India to European co-operative movements. Further dissemination of co-operative experience was made possible through the ICA and the Plunkett Foundation. In

later years the Alliance became a significant organiser of study tours and summer schools where developed co-operatives could encourage and help those in less developed countries.

### **THE ROLE OF PATERNALISM**

The help that longer established co-operative movements could give younger ones brings us onto the role and scope of paternalism in co-operative development.

Co-operatives being independent and autonomous organisations have traditionally been wary of external influences. Sturdy self-sufficiency and self-management has been prized particularly among European consumer co-operatives that were largely self-made. Robert Owen's ideas inspired early British co-operators but the ideas of self-help proposed by Dr. William King were also hugely influential. Even so some degree of paternalism may be found in the early British Consumer Co-operative Movement. (30)

Elsewhere the Catholic Church and other religious groups assisted co-operatives in their early stages and people, as well as organisations, may well be paternalistic. In the context of this paper Earl Grey and Sir Horace Plunkett could be so described. Paternalism can be defined as someone or an organisation performing roles that a co-operative is not yet sufficiently strong to perform for itself. A classic example is the role played by the Christian Socialists in Britain in helping the fledgling British Consumer Co-operative Movement gain appropriate legislation in the form of the Industrial and Provident Societies Acts.

With this in mind it is possible to argue that British imperial administrations in their promotion, supervision and auditing of co-operatives were also paternalistic but in more encompassing forms. The important thing is, as the International Co-operative Alliance has frequently argued, that paternalism is not permanent, that it is phased out as soon as possible. Co-operatives movements must be allowed to become independent and self-governing.

### **CONCLUSION**

This paper claims that the British Empire became the first global co-operative development agency. It has shown how and why it did so illustrating the kinds of co-operatives formed under its administration. The importance of appropriate co-operative legislation has been stressed and the role it accorded to Co-operative Registrars noted. The writings of some of these indicated an ideological

element in British imperial co-operative development. Supporting roles played by the International Co-operative Alliance and the Plunkett Foundation were also noted.

The paper also suggested that the British Empire exhibited a high degree of paternalism in its development of co-operatives. It is difficult to assess, though, its success in creating co-operative movements that were eventually independent and autonomous.

Evidence from one suggests that there was some success. The following prayer comes from the Oodi Women's Weaver Co-operative of the Botswana Co-operative Movement. It clearly reflects co-operative identity and independence:

#### A Co-op Prayer from Botswana

Lord, Save our co-operative, and keep it safe from the attention of:

- the *academics* who wish to pull it apart to find out how it works
- the *professionals* who seem to believe that nothing can be achieved by ordinary men and women without their help
- the *advisers* who never tire of finding new problems so that they can pretend to be finding solutions for them
- the *managers* who think the Co-operative should work for them rather than they should work for it
- the *politicians* who seek to use the Co-operative as stepping stones to power
- the *Governments* which would bury it in bureaucracy
- the *pedlars of dogma* who want to make it fit their view of the world and will not accept that our Co-operative is simply a self-help enterprise bringing benefits to our members
- the *investors* who would try to take it over and cash in on its success

Lord! Protect us from any such, often well-meaning, but interfering people who do not seem to understand that all we want to do is to work harmoniously together to bring economic benefits to our members without harming or transgressing the rights of those outside the Co-operative. Amen

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# THE HISTORY OF ROCHDALIAN CO-OPERATIVES IN LATIN AMERICA

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**Key Words:** Co-operativism, Co-operative History, Latin-America Co-operatives

## INTRODUCTION

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Latin America is the largest Spanish and Portuguese speaking continent. With its Central America and Caribbean islands discovered in 1492 by Spain, and most of its South Atlantic Coast discovered in 1500 by Portugal, its diverse colonization and history must be analyzed differently, according to geographic areas: Central America, the Andes Mountains, the Amazon Forest, the East Coast, and the South of the continent.

In all areas, Indians had a particular socio-economic co-operative process, destroyed in the mainland by Spanish's and Portuguese's religious orientation and economic desire, imposing new ideas and social organizations, sometimes turning the Indians in slaves or killing them. Nowadays the pure Indians societies were restricted to few Amazon rainforest or inaccessible areas, and it is possible to find Indians among the society, mainly on Andes. But the co-operative experience had an impact on this scenario.

In latest 1800's and early 1900's, European immigrants brought the co-operative ideas to Latin America, starting social economic organizations based on Rochdale ideas. Some of these organizations were responsible to turn poor immigrants turn on successful entrepreneurships, specially Italians, Germans, and Dutch immigrants in Brazil, and developed some economical aspects of the society, mainly on agriculture.

Nowadays Indians and slaves' descendents and the poor without access to the formal economy and social benefits like education and health have been influencing the Politics by choosing governments with social awareness, like in Venezuela, Bolivia, Equator, and Brazil, and by trying to organize a social, political and economic movement to allow the access to better wealth and income. In that way, a social movement called Solidary Economy used

in Latin America countries a co-operative model brought by the immigrants based in Rochdale's, forming small social co-operatives more socially and politically engaged, refusing the traditional movement brought by immigrants, considered bourgeois.

Such scenery built two different social co-operatives movements, based on the same Rochdale principles, but with different political and social orientations. The left-wing governments encourage the social ones, while the "old" social co-operatives seek for the "traditional" co-operative movement to receive economic and administration expertise to improve its growth with more economical orientation than the "original" political orientation.

This paper aims to explain such scenario, starting by a brief history of the Indians co-operative experience, in order to allow a better understanding of the original bases of the co-operative movement in Latin America, describing how the Rochdale ideas arrived in the continent and how these organizations found their way to economical success. Finally, the paper describes the contemporary history of the new Solidary Economy co-operative movement.

## PRE-ROCHDALIAN CO-OPERATIVES IDEAS IN LATIN AMERICA

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In Latin America, the Indians formed co-operative organizations to face environmental adversities. In Central America and Andes, the Aztecs and Incas had a sophisticated society, with knowledge about time and astronomy, an advanced construction system that made the construction of large rock pyramids and temples possible, and cities with public water systems. In Aztecs society, the free citizens built public irrigation systems and co-operated in

farming to control plants diseases or to lend seeds to someone who lost its harvest, for example.

Incas in Peru had collective efforts in agricultural practices from the ones in working conditions, with the results distributed in function of each one's effort and needs, until around 1530. Such efforts were used to improve the economic activity with the slave's workforce or to guarantee security during wars.

In Amazon forest and in the East Coast, the Indians had a simple economic organization, based on primary activities like natural extraction, fishing and hunting, and few agricultural areas, but had co-operative systems to manage the collective hunting, fishing and the work in agricultural areas. In their societies the house was also collective, and the children were educated not only by parents and relatives but also by all tribe's members. Nowadays some traditional small farms in Brazil still presents similarities to the collective Indian system, but unfortunately most information and experience in collective and co-operative work were lost after Portuguese's colonization.

South America's country field had a important co-operative experience in 1600's and 1700's, occurred among Guarani Indians and Jesuits, in the borders of Spanish and Portuguese areas, nowadays Argentina and Brazil, between the States of Missiones and Rio Grande do Sul.

This experience started in 1627 with 30 communities of Guarani Indians, like a Christian Co-Operative Republic, called *Missões* or *Missiones Jesuítas*, but was completely destroyed in 1759 by Spanish and Portuguese armies in *Missões War*. At the end of the war lasted around 88.000 Indians, 4.000 in each *Missão* or *Redução*

The co-operative practice was clear and close to the modern Rochdale principles. The first principle was free membership to the community, with two different organization models to be chosen: *Tupambaé*, community lands with collective production, or *Abambaé*, family-owned lands with their work.

Seibel (2003) shows that all results were distributed according to the participation in agricultural work and each one's personal needs, with all members having rights and obligations on a democratic way. All communities were integrated and traded agricultural and manufactured products, and services. Discrimination between Indians people or Christians' and Indians was forbidden, and all children between 7 and 12 years must come to the school, with classes in Guarani language.

Garuti (2009) explains that each *Redução Jesuíta* or *Missões* had independence and autonomy and there were 30 *Reduções*, in Brazil,

Argentina, Uruguay and Paraguay. Each one had autonomy and an administrative council formed by Indians, but all Indians chieftains lived in the same *Redução* with a democratic council.

The voluntary and open membership, democratic member control, economic and educational participation of its members, co-operation among co-operatives, and the communicate concern with autonomy and independence may characterize such experience as the first co-operative experience in Latin America before Rochdale's first co-operative.

## IMMIGRANTS AND THE FIRST ROCHDALE CO-OPERATIVES

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The need to improve the agricultural activities the Latin American countries incentivize the immigration of Europeans to occupy empty areas, in the same period when Europeans started to look for new opportunities in the New World. That way, in latest 1800's and early 1900's many immigrants started to arrive in different Latin American countries looking for a new live, specially Italians and Germans, but also Polishes, Russians, Ukrainians, Japanese, and others. Pinho (2004) appoints that in 1889 the first Brazilian Co-operative was born in Ouro Preto influenced by *Rochdale's* principles to provide housing and credit services. The lack of a special co-operative law in the time made the co-operative to register itself as a normal company.

However, from 1840 to 1895 some *Fourier* co-operatives experiences also occurred in Brazil. In 1847, Maurice Faivre organized the Thereza Cristina community in Paraná State, *Fourier Falansterio*, among other. Charles Gide in France had referenced to Santana Nery, the first Brazilian to participate in a Co-operative Congress.

In Brazil the agricultural activities, especially green coffee exportation, brought to the country English engineers and technical staff to build an important railroad between the plantation areas and the port. In the city of Jundiá, the terminal, the English ideas influenced the workers to start a consumer co-operative in 1897.

In that way, in early 1900's the *Rochdale* ideas, brought by the immigrant, started to arrive and improve its influence in the continent. The Germans immigrated to agricultural areas in Brazilian South, and the lack of financial capital and the challenge of living in a new country motivated the foundation of the first *Reiffeisen* credit co-operative in Brazil, in 1904. The Italians which immigrated to Brazil to work as labor force in coffee

plantations and São Paulo's incipient industry also organized co-operatives, including the first *Luzzatti* open credit co-operative in 1906.

The same happened in Argentina with strong immigrants influence. Plotinsky (2009) notices that the first *Peoples Bank* was organized in 1887, and the first Rural Credit Co-operative in 1911, but the most important experience was the Credit Co-operatives similar to Jewish mutual's, in 1913. In Mexico, after 1917's revolution the *ejidos* were established like agricultural workers co-operatives. (BENEKE, 1994).

In Chile and others South American and Central American countries the same kind of co-operative experience happened around early 1900's, always with immigrants influence due to their economical challenges, always with Rochdale's ideas. Some of these co-operatives merged with collective experiences of Indians and the society.

The growth of the first co-operatives experiences forced the governments to establish specific laws for these organizations, and due to their social importance, incentive policies with reduced taxes. The first co-operative legislations were signed in Chile (1925), Colombia (1931), and Brazil (1932) (RAMIREZ, 1994), all based on the international knowledge about the co-operative organizations and Rochdale's principles. The Brazilian version considered co-operatives like a company made by individuals and not a capital company with a particular legal logic and economic objectives with Rochdale principles.

Despite these initial *Rochdalean* co-operatives, the co-operatives in Latin America started to increase its social and economic importance after 1960's, based on development policies, particularly to agricultural areas. Benecke (1994, p. 218) explains that during 1960's the co-operatives had an excellent framework to growth and "...were mostly used only for ideology...". In that period occurred an outbreak in the number of co-operatives and an increase in their capacity of, improving their members' health and wealth.

## THE DEVELOPMENT OF ROCHDALIAN CO-OPERATIVES AFTER 1960'S

Between the World Wars, and in the period immediately after the Second one, Latin America had a slightly income development and some countries started their industrial development, with industry gradually substituting the agricultural sector as the most important sector for their economy, especially in Mexico, Argentina, Chile and Brazil. In 1960's,

new society ideas and the inequality of income distribution strengthened the social movements and expanded the socialist horizons in the region, generating popular movements with socialist principles and left-wing governments like in Chile and Brazil. The co-operative movement grew in importance, with some co-operatives formed based on socialist principles, especially in the countries with left-wing governments.

At that time, the Communist threat and the Cold War motivated some coup d'état made by national armies supported by USA, starting dictatorships in some countries, mainly Brazil, Chile and Argentina. The social movements gone underground, organizing unsuccessful terrorist acts to stop the new dictatorships, and many militants disappeared or where extradited. Latin America dived in a dark period of violence, censorship and repression. In that scenario, the co-operatives became a threat due to possible communist and socialist ideas. Realizing this, the dictatorial governments started to control the co-operative organizations and require a governmental license to keep them operating. In Brazil, the *Luzzatti* credit co-operatives and the educational co-operatives were closed, and the others became controlled by the dictatorial regime.

Otherwise, the co-operatives also became a viable way to develop poor areas and solve income distribution problems and, with support of USAID – United States Agency for the International Development, the dictatorial regimes started special policies to develop agricultural and poor areas using co-operatives to improve the economic development.

Benecke (1994) notices, that Chile had 246 co-operatives in early 1900's and around 1,300 were founded between 1960 and 1968 with government's support for social activities. The dictatorial regime sharply decreased their number from 3,452 in 1972 to 2,261 in 1983 with the implementation of the Chicago School of Economics "*Free Market*" orientation with focus in market and competition development. The same author appoints that Venezuela, Panamá, and Ecuador had not co-operative development in these years.

In 1970's, the number of co-operatives in Argentina, Uruguay, and Brazil firstly decreased, but in a second moment it increased to develop the co-operatives controlled by the dictatorships. The co-operatives started to growth not only in number, but also in size, number of members and economic scale, orientated to the market. In Brazil, a new law in 1971 reaffirms Rochdale's principles, legalizing co-operatives like social organizations, without profit orientation and with democratic governance.

However, only the governmental office could give the operation license, and a governmental official should attend their annual general assembly to verify their activities and political orientation.

In that period the most important agricultural co-operatives were formed with governmental support in the coffee and dairy markets, among others. Credit co-operatives were allowed with closed

membership only, controlled by the Central Bank and dependant of the governmental Bank – BNCC to access the financial markets. Educational Co-operatives were permitted only if they had orientation to national education. In 1971 was created the OCB – Brazilian Co-operatives Organization – with support of the established authorities.

**Table 1.** Co-operatives number and size in some Latin American and Central American countries in 1972 and 1982.

	1972		1982		%	
	Number	Size*	Number	Size*	Number	Size*
<b>Argentina</b>	<b>4400</b>	<b>1078</b>	<b>4198</b>	<b>2255</b>	<b>-4,59%</b>	<b>109,18%</b>
<b>Uruguay</b>	<b>918</b>	<b>284</b>	<b>794</b>	<b>733</b>	<b>-13,51%</b>	<b>158,10%</b>
<b>Chile</b>	<b>3452</b>	<b>242</b>	<b>2261</b>	<b>-</b>	<b>-34,50%</b>	
<b>Bolivia</b>	<b>1459</b>	<b>85</b>	<b>2218</b>	<b>97</b>	<b>52,02%</b>	<b>14,12%</b>
<b>Peru</b>	<b>2010</b>	<b>461</b>	<b>2032</b>	<b>1014</b>	<b>1,09%</b>	<b>119,96%</b>
<b>Colombia</b>	<b>1480</b>	<b>752</b>	<b>2410</b>	<b>545</b>	<b>62,84%</b>	<b>-27,53%</b>
<b>Venezuela</b>	<b>292</b>	<b>253</b>	<b>550</b>	<b>264</b>	<b>88,36%</b>	<b>4,35%</b>
<b>Mexico</b>	<b>2886</b>	<b>119</b>	<b>6221</b>	<b>89</b>	<b>115,56%</b>	<b>-25,21%</b>
<b>Costa Rica</b>	<b>270</b>	<b>218</b>	<b>464</b>	<b>578</b>	<b>71,85%</b>	<b>165,14%</b>

\*Number of members per number of co-operatives. Source: Benecke,(1994)

It is possible to notice that the number of co-operatives decreased in Argentina, Uruguay and mainly Chile, and increased in Bolivia, Colombia and Venezuela, with the same happening with Mexico and Costa Rica in Central America. Their size increased in Argentina and Uruguay and decreased in Mexico and Colombia, maybe due to governmental programs to encourage co-operatives, increasing their number but lowering their average number of members.

It is important to observe the impact of the development policies that used the co-operatives as

an alternative way to develop poor areas with market orientation, objectives and economic efficiency, differently from the previous phase when the co-operatives were a socialist way of social development.

It is also important to notice that this Latin America historical period shifted the co-operatives objectives from the ideal way of socialist development to a model developed by the dictatorships supported by USAID, that seeks the economic efficiency and influences directly the next phase of the co-operative movement in the region.

## THE RECENT SOCIAL MOVEMENTS IN LATIN AMERICA AND THE CO-OPERATIVES IDEAS

At latest 1990's and early 2000's decade, the Latin American co-operatives had a new period of change and growth, with all countries electing new civil governs democratically, new laws and constitutions, and the recent left-wing governments phenomena. The cases of Brazil, Venezuela, Bolivia, and Ecuador are important, but Venezuela and Brazil need special attention, in function of Venezuela's Bolivarian Govern of Hugo Chavez, and the Brazilian Workers' Party - PT - government of Luis Inácio Lula da Silva. Both governments have left-wing orientation and consider the co-operatives a good way to develop the country, improve the economy, and insert the poor in the consumer market. Moreover, Argentina lives a difficult economic moment to national company and workers, and in this scenario the co-operative movement quickly organized a social response to economic adversities, with around 200 factories with financial problems becoming worker-managed firms with co-operative model, with more than 10,000 members but without governmental support or even recognition by the governmental bodies.

### VENEZUELA'S CASE

In Venezuela the first co-operative law was signed in 1910. In 1960's the co-operative movement was reactivated with governmental incentive and the support of Progress Alliance, a USAID program to Latin America. In 1966, it was signed the Co-operatives' General Law, creating the Co-operatives' National Superintendence to regulate and control the co-operative movement. In 1999, the new president Hugo Chavez started the so-called Bolivarian Revolution, a reform to build the XXI century socialism in the country approving a new constitution with important mentions to co-operatives, guaranteeing the people's rights to organize themselves in co-operatives and the governmental responsibility to stimulate them. In 2001 a new special law for co-operatives associations is approved.

In Venezuela's National Plan to Economic Development, the co-operatives are instruments to improve income distribution and develop the economy, creating a preference to contract services or buy products from co-operatives, and a public space to co-operatives organizations decisions. Harris (2009) appoints that Venezuela's president Hugo Chavez was elected by the poor, around 80% of the

population, deploying a policy to develop socialism, protecting the private property but encouraging and supporting social enterprises and movements. In this way, in Venezuela there are 83,769 active co-operatives in every economic sector with 946,000 members, only 11,29 members per co-operative, reflecting the small social co-operatives formed to create wealth and take the poor away from marginality and insert them in the economy. The same author explains that the government's educational missions trained 195,000 students in technical and managerial skills and their students created over 7,592 new co-operatives. The Women's Bank and the People's Bank have been supporting these new social co-operatives in Development Zones with financial resources, technical assistance, physical space, and credit. In 2005, there were 115 active zones with 960 co-operatives in agriculture, industry and tourism.

Harnecker's (2009) describes the Ministry of Popular Economy as a facilitator to the integration among co-operatives and small and medium size enterprises, creating supply chains and a parallel economic structure aside the traditional market. Harris (2009) affirms that "...*The strategy of the Bolivarian revolution is to support the co-operative movement to build economic strength and develop a counter ideology and culture...*". The popular movement in Venezuela avoids the neo-liberal capitalism model and creates a decentralized system based on a social market economy.

### BRAZIL'S CASE

Brazil has a wide co-operative movement with who different positioning. Initially, can be defined two predominant groups, Brazilian Co-operatives Organization – OCB, an old movement with economic focus, and the Social Co-operatives, part of the so-called *Solidary Economy* with strong social focus, that also has a special Secretary linked to Ministry of Labor. Such concept admits all economic organizations that seek more human-centered relations. Some *Solidary Economy* sectors do not recognize the Brazilian Co-operatives Organization – OCB as their representative, considering it as the organization of the remaining co-operatives from the old model created during dictatorship, focused on economic gains, and therefore not a legitimate socialist movement. It should be pointed out that the *Solidary Economy* concept has a strong social transformation and political connotation, not always respecting the political neutrality principle originally thought by the International Co-operative Alliance.

The Brazilian Co-operatives Organization coordinates a wide and well organized co-operative movement composed by old co-operatives, the most important ones formed by German, Italian, Dutch and Polish immigrants, among others. Thus, OCB includes credit co-operatives of German immigrants more than 100 years old, highly professional agricultural co-operatives of Dutch immigrants, and many others in all economic sectors. The OCB system was hegemonic for years because the co-operative's law - Law 5764/71 - demanded a system with unique representation. Today, more than 7,682 co-operatives are registered in OCB system with around 7.8 million members, an average of 1,026.77 members per co-operative, with nearly 35 million indirect beneficiaries - 17% of Brazil's population. Co-operatives are also responsible for 6% of the Brazilian GDP, an expressive number in the Latin America context (OCB, 2009). Co-operatives operate in all economic sectors, including two Banks - Bancoob and Bansicredi - and three different and strong credit co-operatives systems that represent .1.5% of Brazilian's financial sector with 1,113 co-operatives and 3.2 million members. In agriculture, the co-operatives are responsible for more than 30% of all soybeans exportations, 1/3 of all coffee production, and 40% of Dairy products production, among others, and formed mostly by small producers. The most important consumer's co-operative - COOP - is the biggest of Latin America with 1.5 million members. UNIMED, a health co-operative formed by doctors, is one of the most important private health insurance companies in Brazil. There are also Labor, Transportation, Cab Drivers, Housing and Tourism co-operatives.

Such co-operatives are formed by economically active members, has solid and strong financial positions, and have economic efficiency. The co-operatives movement in Brazil is member of International Co-operative Alliance, worries about the co-operatives' doctrine and principles, and recognize the international co-operative movement like an socioeconomic movement without political orientations. The *Solidarity Economy* movement appeared around 1980's and 1990's and was a deep social orientation. Its co-operatives and associations are not members of OCB system and it is difficult to estimate their economic importance and size. Besides that, the movement includes a wide range of organizations and entities.

According to Brazil's Ministry of Labor data, there are 21,419 *Solidarity Economy* organizations, including 7,978 groups, 11,326 associations, and 2,115 co-operatives, forming an expressive and important movement with 1.6 million members, an average of 77.2 members per co-operative.

ANTEAG, the National Association of Autogestion Workers and Companies, affirms that it represents 103 companies and 25,000 workers. The basic administration model of the sector is the North American Employee Stock Ownership Plan - ESOP. Its main idea is that the company's control, decisions, participation in the discussions and production are entirely executed by workers, with a professional management and even a business network (Nakano, 2000). Besides the Solidarity Economy movement, another organization have been strengthens in the last years. MST - Landless Peoples Movement - created the CPAs - Agricultural Production Co-operatives, CCAs - Central Co-operative of Establishments - and CONCRAB - Confederation of Agrarian Reform Co-operatives in Brazil. Such politicized and active system is constituted of 86 co-operatives: 32 CPAs, 30 to services only, 17 for production and services, 3 for credit, 2 of small rural producers, and others.

Ferreira, (2000, p86) indicates: "...*The creation of co-operative system of those who have land, disentailed from the OCB, enabled autonomy in relation to the government and to the great co-operative corporations, led by entrepreneurs. This attachment granted independence to the political procedures, freedom of expression, based on the co-operatives conception as a fight and class instrument...*". So it is possible to realize the ideological and even revolutionary bias of the movement.

In 1990's it was also created the UNISOL - Union and Solidarity Economy Co-operatives of the State of São Paulo - that has a network of 11 industrial co-operatives that guarantees around 600 jobs. Such organization has created based on an important Union, CUT - Unitary Workers Central, that settled up an agency to develop co-operativism, ADS - Solidarity Development Agency. At that time was also created the Technological Incubators Network of Popular Co-operatives - ITCP, with 14 Universities as members and integrated to UNITRABALHO - Interuniversity Labor Study and Research Network, aiming to form and incubate co-operatives that can integrate the poor to the economy. The church participates on such efforts through CARITAS, a remarkably respected organization in the co-operativism movement.

Finally, there was also the creation of a solidarity credit network, independent from OCB and the banking system, named CRESOL - Rural and Solidarity Credit Co-operatives, which operates official credit lines to familiar agriculture such as PRONAF and supports with financial credits the small rural producers of Brazil's Center-South. The movement also began in 1990's and today accounts for more than 10,500 members, having agreements

with Banco do Brasil, the National Co-operativism Department of the Ministry of Agriculture, and with agricultural technical assistance organizations. Such system came up from the discussion about the need to modify the current co-operative system, as well as to seek more space for family producers. (Bittencourt, 2000)

The Brazilian Government supports social movements and encourages co-operatives, based on the national constitution that includes references to the government responsibility on encouraging co-operatives, recognizing their different activities and allowing them to be organized all over the country. The Brazil's constitution recognizes the co-operative act differently of the commercial act for the tax and commercial policies.

## CLOSING REMARKS

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Latin America has an important co-operation history based in the Indians experience, which did not survive in society thought time, did not have a great influence in co-operative process in all countries of the region, and only survived in particular areas influencing particular social organizations. The modern co-operativism in Latin America started with the immigrants experience that brought Rochdale's pioneers ideas and princi-

ples. However, such experience was not economically significant, with a strong co-operative movement surging only after the Second World War and with the Latin American industrialization process. Due to the poor socioeconomic conditions during the Cold War, the co-operatives were encouraged by the socialist governments and later closed by the dictatorships. A different co-operative orientation was born with the dictatorships and USAID support, motivated by economic objectives, and such co-operatives continue to exist until our days with strong financial and economic base. In latest 1990's and beginning of the XXI century, new left-wing governments took place in Latin America thought democratic election processes in Brazil, Venezuela, Bolivia, Equator, and Chile, among others. These governments consider co-operatives like a way to reduce the inequality of income distribution, to insert the poorest in the formal economy, and create welfare. These governs support the co-operative movement.

These co-operatives are based on the *Rochdalean* co-operatives organizational form, and were encouraged in some countries, strengthening their power and forming a new social movement, important to the economic development, and the knowledge about democratic processes by the poor.. To one day, maybe, start in Latin America a new economic order based on the co-operatives movement.

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# THE DEVELOPMENT OF ESTONIAN AGRICULTURAL CO-OPERATIVES AND AGRICULTURAL POLICY PROPOSALS FOR DEVELOPING RURAL ECONOMIC CO-OPERATION

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## INTRODUCTION

The present situation is that in comparison with many Western European countries and the Nordic countries, the co-operatives play a considerably smaller role in Estonian rural economy. The hope that after transition from Soviet collective agriculture to market economy and private farming in the 1990ies, widespread and viable co-operative movement would re-emerge in Estonian countryside, did not materialise.

While several surveys have shown (Leetsar 2003, Institute of Economics ... 2006, MTÛ Eestimaa ... 2009 etc) that Estonian agricultural producers understand in general that co-operation would offer considerable advantages, they have been unable to put this into reality and majority of them have not been able to initiate nor participate in co-operation with other local agricultural producers. There have been a number of obstacles that have hindered the development of co-operation in Estonia and that need to be addressed.

The present paper has two main objectives: firstly, to study the main developments and problems of Estonian agricultural co-operatives, and secondly, to discuss the opportunities of agricultural policy for the development of economic co-operation in Estonian rural areas. The data pre-

sented in the present paper has been collected by combination of quantitative and qualitative methods. For the data collection two questionnaire surveys, semi-structured interviews, content analysis were conducted. The results of the analysis are presented in the form of different frequency tables, figures. Following research tasks have been set: to give an overview on the main developments of agriculture in Estonia in the last 20 years and their impact on the co-operatives; to study the statistical data on primary sector commercial associations and non-profit organisations in the last 10 years; analyse the results of the opinion surveys; to propose and discuss possible measures that could be implemented to encourage rural economic co-operation in Estonia.

The paper is divided into four main sections: firstly, a general review on the main developments of agriculture in Estonia in the last 20 years is given; secondly, statistical data on the primary sector commercial associations and non-profit organisations in Estonia in the last 10 years is studied; thirdly, the results of questionnaire surveys is presented; fourthly, the proposals for developing rural economic co-operation on the basis of data collected with semi-structured interviews in 2008 are discussed.

## GENERAL DEVELOPMENTS OF ESTONIAN AGRICULTURE IN THE LAST 20 YEARS AND THEIR CONNECTION WITH THE AGRICULTURAL CO-OPERATION

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Before the II World War Estonia co-operative movement was very well advanced. For example, according to the estimates of Ekbaum (1962: 207) there were over 3000 co-operatives in Estonia with over 280 000 members in 1939, which is impressive considering the size of Estonian population that was around 1 million at the time. According to estimates (Leetsar 1996: 33) on average a farmer was member of two co-operatives. Around 52% of Estonian banking, 49% of insurance market, 25% of retail sales were controlled by different co-operatives; 98% of Estonian butter, 64% of alcohol production and 75% of grain seeds was produced by co-operatives (Ekbaum 1962: 227).

In transition from Soviet planned economy to market economy in the beginning of the 1990ies agriculture and rural economy was reformed by the land, proprietorship and agricultural reform that reorganised the agricultural sector into private farms and restituted the land, property nationalised in the Soviet era (Viira et al. 2009a). The first private farms were re-established in the end of the Soviet era and the number of established farms increased from 828 in 1989 (Virma 2004) to 19 767 by 1995 and it reached 51 081 by the end of 1990ies (Statistical Office of Estonia 1999).

Although advocates of co-operative movement hoped that with re-establishment of private farms and co-operatives a strong co-operative movement in rural areas would re-emerge, this did not occur for multiple reasons (Eesti Ühistegeline Liit 1998, Leetsar 2003 etc). In 1992 the Associations Act (Eesti Vabariigi Ühistuseadus 1992; was in effect until 2002) was passed that allowed the establishment of two types of co-operatives: commercial associations that are companies and non-profit associations that are non-governmental organisations. So while talking about co-operatives in Estonia, we are talking about either commercial associations or non-profit organisations. Leetsar (1996: 45) estimates that in the middle of 1990ies around 1500 co-operatives were established or restored. However, most of them did not manage to achieve wide and active membership and tangled to a myriad of economic and social problems.

Part of the problem was that there was no clear political understanding on the nature of co-operatives (Leetsar 2001:269) and therefore no strong

institutional support for their establishment and development. In the beginning of 1990ies, in a short period of time more than 30 different political parties, faction and interest groups were established that all had their own visions on Estonian future and their own agendas, and so no wider agreements were reached on co-operatives (Leetsar 2003: 298). In some aspects the government even worked against the co-operatives. For example, in the restitution process the assets that were nationalised in the beginning of Soviet era were not resituted to those re-established co-operatives, even though they were entitled subjects (Institute of Economics ... 2009:12). Another hindrance was that negative attitude that associated co-operation with the collective farming and Soviet times prevailed (Leetsar 2003: 298- 301) and made the decision makers and rural population reluctant towards the issue of co-operatives.

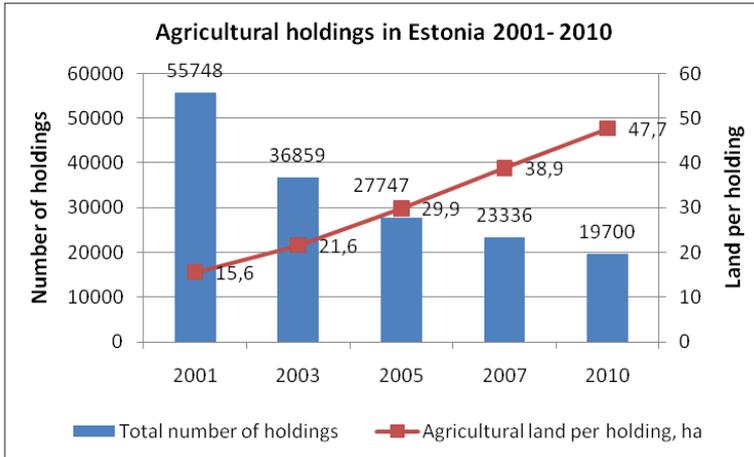
The overall negative developments in Estonian agriculture in the 1990ies had its impact on the development possibilities of the agricultural co-operatives and in the same time the weak development of co-operatives facilitated many negative processes as agricultural producers were unable to organise themselves and to fight for their collective interests through co-operation. Estonia followed a very liberal economic policy that resulted in a considerable inflow of foreign direct investment and a rapid transformation of economy, but it had painful costs for agriculture and rural development (Unwin 1998: 293). The liberal trade regime meant that while Estonian farmers had to compete with cheap foreign exports in the domestic market, the foreign markets were protected with trade barriers (Maide 1995, Unwin 1997). Without institutional support to co-operatives, different types of companies (joint-stock, public limited companies), especially those based on foreign capital, very quickly captured the Estonian market (Leetsar 2003).

The newly established private farms faced many problems: lack of financial capital, machinery, equipment and other resources (Roosmaa 1996, Jullinen 1997, Tamm 2001, Sirendi 2009); lack of interest in continuing agricultural production (Viira et al. 2009a); lack of knowledge and prior experience on agricultural production (Uint et al. 2005, Sirendi 2009). The agricultural decline manifested itself in the sharp decline of animal and cereal production in the middle of 1990ies (Viira et al. 2009a). The economic weakness of the newly established farms meant that they were neither able to organise co-operation nor were able to participate in co-operatives. In the same time the inability to cooperate meant that farmers were unable to fight for their interests together and to col-

lectively lobby the politicians for more favourable political decisions.

In the 2000s the most important development was the EU accession in 2004 and harmonisation and implementation of policies, including

CAP. Important general development in Estonian agriculture in the last 10 years has been the considerable decline in the number of agricultural holdings and the concentration of production into the larger holdings.



**Figure 1.** Agricultural holdings\* in Estonia and average size of a holding in 2001- 2010

\* Since 2001 the official statistical unit is agricultural holdings; before 2001 statistical units were agricultural enterprises and private farms.

Source: Statistical Office of Estonia 2010; 2011

In the last 10 years there has been a structural change as Estonian agricultural holdings have followed development similar to many western European countries (Viira et al 2009a). In this process the number of agricultural producers has been decreasing and the average size of the producers has been increasing (Calus et al. 2008; Browne et al. 1992). The decrease in the number of producers has been mostly in the expense of the smallest producers. The average size of Estonian holding has increased from 15,6 ha in 2001 to 47,7 ha in 2010, while the number of holdings has dropped from 55748 to 19700 (Statistical Office of Estonia 2010). The decrease of agricultural production of 1990s was replaced by the general increase in production in the 2000s (Viira et al. 2009a). A dualistic development has appeared as besides large agricultural holdings that provide majority of agricultural output, there are a large proportion of small farms with very little agricultural output (Sarris et al. 1999; Viira et al. 2009b). For example, this is illustrated by the estimates that in 2010 75% of agricultural land in Estonia was used by holding larger than 100 ha (Statistical Office of Estonia 2010).

Those general developments have had an impact also to the development of co-operatives. A small number of the largest producers are those

who have successfully managed to form different co-operative associations and have marketed their produce through that association and this has resulted in economy of scale, bargaining power in the negotiations with processors (for example in case of milk production the largest co-operative produces around 20-30% of Estonian milk). However, on the other side there are thousands of small scale producers who have been unable to establish widespread co-operation. Because of their production volume they are not interesting to the associations of the largest producers, and they do not have much bargaining power in the negotiations with industry and retail and wholesalers.

## THE DEVELOPMENT OF ESTONIAN PRIMARY SECTOR COMMERCIAL ASSOCIATIONS AND NON-PROFIT ORGANISATIONS IN THE LAST 10 YEARS

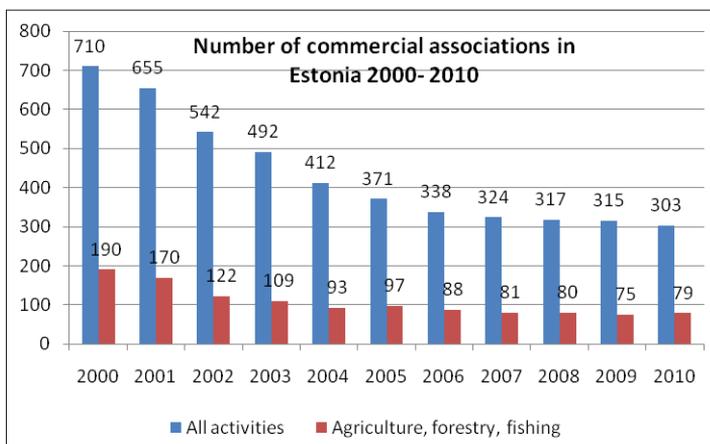
In Estonia there are two possible legal forms for the co-operatives: commercial associations or non-profit organisations. Therefore, the present section

focuses on the main developments of those two types of primary sector organisations in Estonia in the last 10 years.

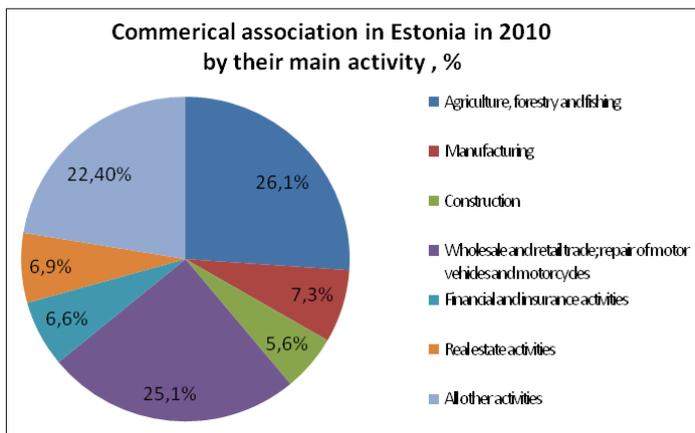
Commercial associations are regulated by the Estonian Commercial Code (Äriseadustik 1995) and Commercial Associations Act (Tulundusühistuseadus 2002) that define a commercial association as a company whose aim is to support and facilitate the economic interests of its members through co-operative economic activity. Among other requirements, the minimum share capital of commercial association has to be 2500 €, and the minimum number of members enacted with law is 5. In many respects the requirements for commercial associations are less favourable than in case of other types of companies. As Parts et al. (2006) describe that with co-operative's liability principles like full personal liability or the members' additional liability, resignation of membership that can take up to 5 years and could include compensation to the co-operative etc, so that compared to the oth-

er trading companies with limited liability, the liability taken by a member of a co-operative extends for longer and is larger. Those are the main reasons why the data on economically active commercial associations in Commercial registry shows that in the last ten years there has been an overall decline in the numbers as the number of associations has decreased more than two times (Figure 2). The same kind of development describes the commercial associations whose main activity is primary sector: their number has declined from 190 associations in 2000 to 97 in 2005 and 79 in 2010 (Statistical Office of Estonia 2011). The number of primary sector commercial associations was the lowest in 2009 – 75, however, in 2010 the number increased as 4 new associations were registered.

The share of primary sector commercial associations in the total of Estonian commercial associations has remained around a quarter of all associations. Among the commercial associations primary sector associations form one of the largest groups, followed by the whole and retail sales associations.



**Figure 2.** Primary sector commercial associations in Estonia 2000-2010  
 Source: Statistical Office of Estonia 2011



**Figure 3.** Commercial associations in Estonia in 2010 by their main activity (%)  
 Source: Statistical Office of Estonia 2011

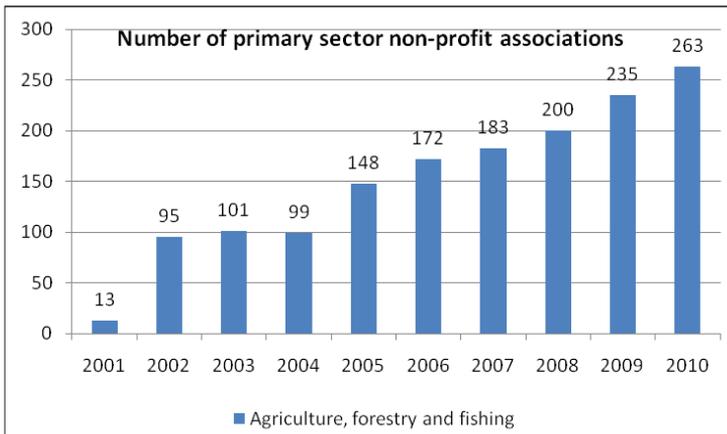
In the beginning of 2010 there were 64 commercial associations whose main activity were animal or crop production (Seeder 2010: 5), so majority of the primary sector commercial associations are agricultural commercial associations.

The reasons for the overall drop in numbers in the last 10 years are closely connected to the problems of co-operation. Considerable number of those commercial associations proved to be not viable as they did not manage to achieve active participation of their members, got entangled to a myriad of legal and economic problems and mismanagement etc. Research by Leetsar (2001: 272) illustrated the root problems that mostly have caused the failure: lack of wider societal understanding on the need for co-operation and on its advantages; lack of trustworthy co-operative leaders as often personal interests were laid ahead of the co-operative interest; the different parties of interest did not reach agreements or compromises; the economic weakness of the co-operatives meant that they were unable to hire professional managers; weak political and economic basis for the establishment of the co-operatives; members of

co-operatives did not perceive the benefits nor the necessity for co-operation etc. Also the legislative requirements for commercial associations are one problem. While there have been some positive developments in Estonia since the 2000s and the EU accession, however, most of those problems are still highly relevant obstacles that still hinder the development of co-operation.

While the number of commercial associations has been declining, the number of non-profit associations has been on a rapid increase. For example, the total number of NGOs in Estonia was 15 696 in 2001, it increased to 21 943 by 2005 and reached 28 303 organisations by 2010 (Statistical Office of Estonia 2011). One of the key reasons for this development has been the implementation of different programs following the EU accession that provided a wide range of new funding possibilities.

The number of non-profit associations that have declared that their main activity is primary sector has been increasing even more rapidly. As in 2001 there were just 13 organisations, by 2005 there were 148 non-profit associations and by 2010 there were 263 primary sector non-profit associations.

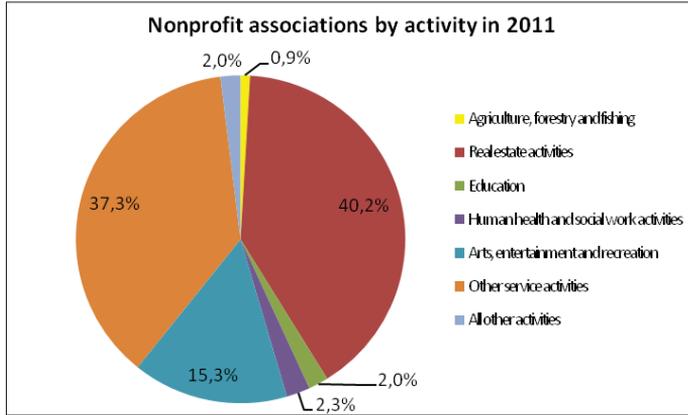


**Figure 4.** Primary sector non-profit associations in Estonia in 2010

Source: Statistical Office of Estonia 2011

The share of primary sector non-profit organisations in the total of NGOs increased from 0,1% in 2001 to 0,7% in 2005. In 2010 their share in the

total of NGOs was around 0,9% (Statistical Office of Estonia 2011).



**Figure 5.** Non-profit associations in Estonia in 2010 by their main activity (%)  
 Source: Statistical Office of Estonia 2011

The following table gives some examples of agricultural co-operatives in Estonia and under which form they currently operate.

**Table 1.** Some examples of agricultural commercial associations and non-profit association in Estonia

Commercial associations	Non-profit associations
Dairy co-operative E-piim (one of the largest milk processors in Estonia)	The Estonian Chamber of Agriculture and Commerce
Breeders' Association of Estonia	Central Union of Estonian Farmers
Commercial association Eesti Mahe (Estonian Organic)	Estonian Farmers Federation
Kevili Agricultural Association (largest association of grain and rape producers)	Regional farmers unions: Tartumaa Farmers Union, Harju Farmers Union etc.
Commercial association Talukartul (Farm potato)	Estonian Animal Breeding Association
Local commercial associations	Estonian Sheep Breeders' Association
	Estonian Gardening and Beekeeping Association
	Estonian Potato
	Estonian Horticultural Association

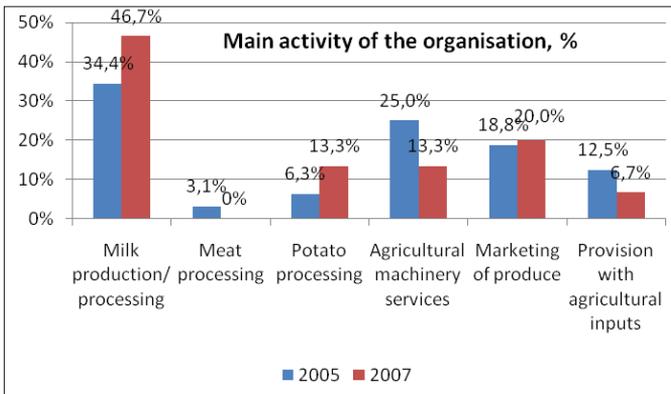
With the decrease of the commercial associations there are some indicators that only the strongest have remained. Non-profit associations have more favourable financing possibilities and in many cases financing sources are available for NGOs, but not for commercial enterprises and commercial associations are classified among enterprises.

## RESULTS OF THE OPINION SURVEYS IN 2005 AND 2007

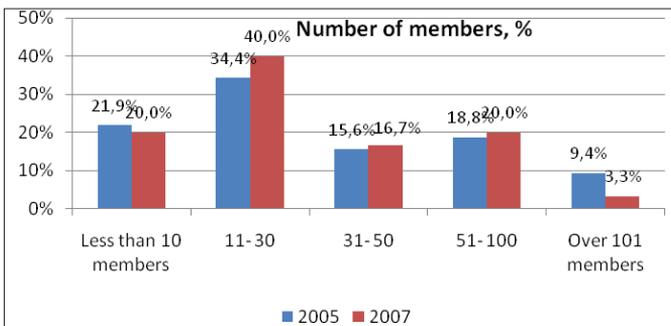
The data presented in the present section has been collected during the survey *Research of opportunities arising in the frame of agricultural policy for developing economic co-operation in Estonia* (Institute of Economics ... 2009). The survey combined quantitative and qualitative data collection methods and consisted of three parts: two questionnaire surveys among Estonian co-operative

managers in 2005 and 2007 and semi-structured interviews with Estonian and foreign experts in 2008 (results are described in the next section). The main aim of the study was to find opportunities of agricultural policy for developing co-operation in Estonia and to propose agricultural policy measures which would take local conditions into consideration.

In 2005 an opinion survey was conducted among Estonian co-operatives to study their main expectations towards the state (Tamm et al. 2009, Värnik et al. 2009, Institute of Economics ... 2009). 32 managers of co-operatives (mostly commercial associations) answered to the questionnaire survey in 2005. In 2007 the follow-up of the survey was conducted and same questions asked. However, as between the two surveys 6 associations had been liquidated, those were replaced in the sample with other co-operatives in 2007. In 2007 30 managers answered the questionnaire and close to half of the organisations were involved in milk production/processing.



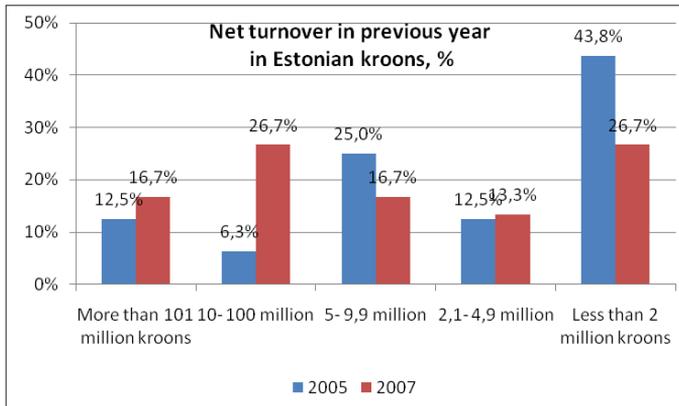
**Figure 6.** Co-operatives according to their main activity, %  
Source: Institute of Economics ... 2009



**Figure 7.** Co-operatives according to number of members, %  
Source: Institute of Economics ... 2009

The share of the smallest co-operatives according to the number of members was close in both years; however, in case of the largest organisations there were changes. In 2005 the two largest co-operatives had 816 and 400 members, but in the follow-

ing year one of them was reorganised and in the other the number of members decreased from 400 to 240. So in 2007 there was only one respondent whose organisation had more than 101 members.



**Figure 8.** Co-operatives according to their net turnover (in Estonian kroons), %  
 Source: Institute of Economics ... 2009

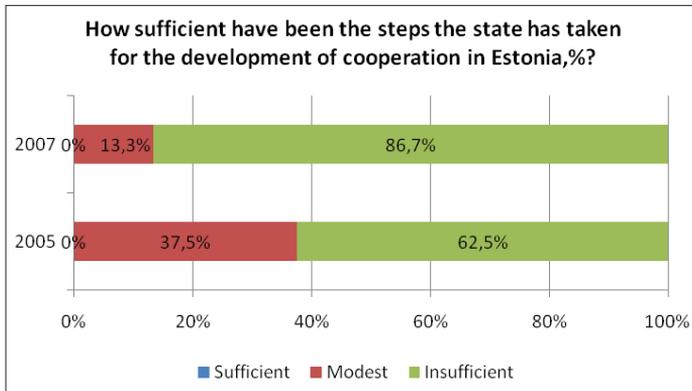
Despite of the decrease in the number of members, on average the net turnover of the remaining organisations had increased. The share of organisations whose net turnover in the previous year had been less than 2 million kroons (127 823 €) decreased from 43,8% in 2005 to 26,7% in 2007 (Figure 7). In 2007 over 40% of the organisations had net turnover more than 10 million kroons (639 116 €) in the previous year.

In the questionnaire the managers were asked their opinions on which measure would have the most impact to the development of co-operation in Estonia. They were asked to rank the 7 different supports according to their impact (1- has most impact). There were little differences in the ranking order of the supports as in the both years as the respondents considered investment supports and supports on processing and marketing to be most effective in the facilitation of co-operative development (Table 2). In 2007 on average tax incentives were considered to be somewhat more important, additional income supports received the same average score in both years.

**Table 2.** Which kind of political measures would have most impact to the development of co-operation in Estonia (average rank; 1- most impact, 7- least impact)

Measure	2005	2007
Investment supports	1,6	2,6
Supports on processing and marketing	3,7	3,1
Tax incentives	3,9	3,1
Additional income supports	3,8	3,8
Supports for counselling	4,7	4,6
Supports for establishment of co-operatives	4,0	5,7
Export supports	5,3	6,0

Source: Institute of Economics ... 2009



**Figure 9.** Opinions on how sufficient have been the steps the state has taken for the development of co-operation in Estonia, %  
Source: Institute of Economics ... 2009

As the results on Figure 8 show, the overwhelming opinion of the managers was that the steps that the state has taken so far for the development of co-operation, have been insufficient. Nobody believed that the state’s action have been sufficient.

**Table 3.** Which kind of obstacles has had most impact on hindering the development of co-operation in Estonia (average rank; 1- most impact, 8- least impact)

Obstacle	2005	2007
Wish to remain independent	3,8	2,5
Fear of cooperating with competitors	5,6	3,3
Insufficient knowledge on the advantages of the co-operation	2,7	3,4
Lack of initiator	3,3	4,4
Additional bureaucracy	3,9	4,6
Membership does not provide economic benefits	5,8	5,0
Increasing operating costs	5,3	6,1
Control over the business will decrease	6,3	6,2

Source: Institute of Economics ... 2009

Managers were asked to rank the 8 different obstacles that hinder the development of co-operation (1- has most impact). There were some differences in the results as in 2007 on average the wish to re-

main independent received the highest rank, while in 2005 the insufficient knowledge on co-operation was regarded as the biggest obstacle. In 2007 this obstacle was on third place, preceded by fear of cooperating with competitors, an obstacle that in 2005 had been considered less of a hindrance.

**Table 4.** Reasons for joining a co-operative (1- has most impact, 7- has least impact)

Reason	2005	2007
Marketing will improve	2,4	2,4
Competitiveness in the market will improve	3,8	3,7
Revenues will increase	4,9	3,8
Sustainability will increase	4,0	4,2
Provides an opportunity to concentrate on the main activity	4,2	4,2
Provides investment opportunities	4,2	4,4
Operating costs will decrease	4,9	5,2

Source: Institute of Economics ... 2009

The respondents were asked to rank 7 reasons for joining co-operatives on how much impact those would have. In both years the improvement of marketing was regarded as the most important benefit followed by the improved competitiveness. In 2007 the hope that revenues will increase had higher rank, but in case of other reasons their ranking order was similar.

## PROPOSALS FOR DEVELOPING RURAL ECONOMIC CO-OPERATION IN ESTONIA

As a part of the project in 2008 (Institute of Economics ... 2009) semi-structured interviews were conducted with 20 Estonian opinion leaders and 15 European experts (from Finland, Denmark, Ireland, Sweden) on co-operatives on the topic of how to improve the situation of Estonian co-operative movement. The Estonian experts were presented with 19 questions and foreign experts with 23 questions, but the present section focuses on the two main issues: the experts' opinions on the obstacles and on the discussion on the opportunities provided by agricultural policy for rural economic co-operation. On the basis of the interviews' data content analysis was conducted and below the most important results are summarised.

The main obstacles for the development of economic co-operation according to the opinions of foreign experts (Institute of Economics ... 2009; 29, Värnik et al. 2009):

1. Limited access to financial capital.
2. Lack of knowledge on co-operation – on advantages of co-operatives, on how co-operatives function, on how to manage co-operatives.
3. Lack of leaders and competent managers.
4. Members' lack of knowledge and their modest role in co-operatives.
5. Co-operatives are too local; it is necessary that the co-operatives would develop to national and international level.
6. Lack of public acknowledgement by opinion leaders.

The opinions of Estonian experts emphasised the following problems (Institute of Economics ... 2009: 29- 31):

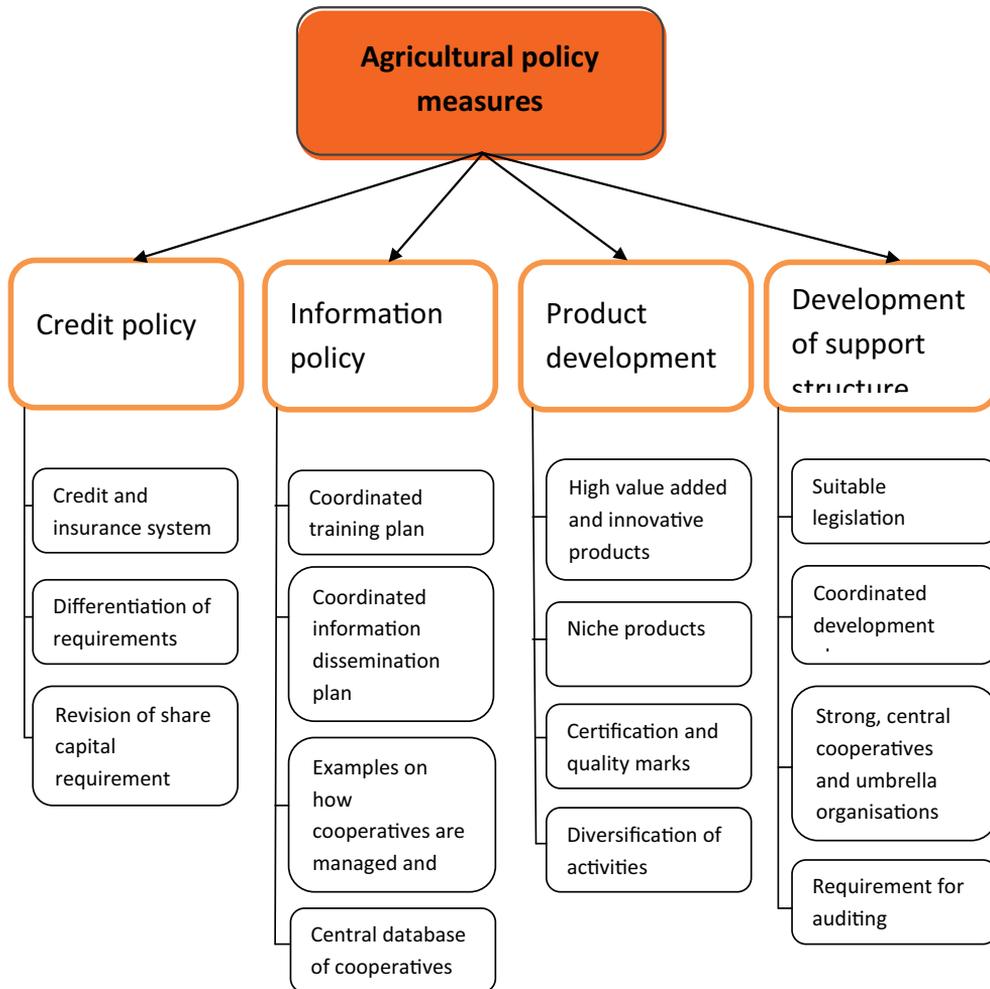
1. Lack of clear state policy that would support the development of co-operation.
2. Low level of investments caused by too strict requirements by financial institutions and lack of trust between the producers that hinders joint-investments.
3. The opinion of the large-scale producers that they are capable of successfully competing by themselves and therefore do not need co-operation.
4. The overall characteristic of Estonians that they believe that they will manage on their own and therefore are not ready to cooperate with others.

5. The unrealistic plans of Estonian co-operative advocates for the development of co-operation in Estonia that have resulted in unfinished activities.
6. More favourable requirements for other commercial companies that have allowed those companies to obstruct the normal development of co-operatives in Estonia.
7. Too small market share of co-operatives in the Estonian agricultural market.
8. Co-operatives have been unable to develop high value-added products.
9. Many co-operatives do not follow the international principles of co-operatives, for example they do not treat their members equally.
10. Lack of control over the management of the co-operatives.

On the basis of the opinions from the interviews the proposals for the development of rural economic co-operation in Estonia were grouped into four main groups (Figure 10). The proposals presented on the basis of this study are not all comprehensive to all the possibilities for developing co-operation in Estonia. The main focus on forming those proposals was to take into the account the overall development in Estonian agriculture and emphasize with which kind of solutions some of the biggest obstacles could be addressed.

Access to financial capital and credit has been a pressing problem to all Estonian agricultural organisations. In the last ten years the access to credit has considerably improved as banks generally are more willing to credit agricultural organisations, especially in comparison with the dire situation of the 1990ies as described by Roosmaa (1996). Another issue is the lack of agricultural insurance system that has not only had a negative impact on co-operative development, but to all Estonian agricultural producers. Agricultural co-operatives in Estonia are in reality either commercial associations or NGOs and in the survey (Institute of Economics ... 2009) managers called the state to revise the requirements set for commercial associations and the overall legislation.

An important issue is that in Estonia a dual production structure has emerged – besides the small number of large producers many small scale producers exist. It should be taken into account that the needs of the two very different type of producers and their co-operatives can be very different. The largest agricultural commercial associations in Estonia have been formed by the largest producers and in reality their membership is not totally open as they do not have much interest in small scale producers. For example, the associations whose



**Figure 10.** Proposals on the focus of agricultural policy measures for the development of economic co-operation.  
 Source: Institute of Economics ... 2009

members' milk cow herd size is in thousands have so far been little interested in cooperating with producers who has 10 cows. So the policy should take into consideration those different needs and also address those issues through its information policy.

One proposal was that the different sources of information should be compiled so that it would not be so fractured among different databases, web-sites etc. The internet site of Estonian National Rural Network (2011), compiles a lot of data, including some practical examples of Estonian co-operatives (MTÜ Eestimaa 2009). A good addition to the site could be a database of agricultural co-operatives and some explanations and examples on how a co-operatives in managed and how it functions.

Another set of proposals concentrated on the product development by co-operatives with the emphasis on high value added products, niche products for small scale producers and their diversification possibilities. So far the discussion on the problems of co-operative movement in Estonia has turned little attention on the possibilities of co-operative product development. Well organised support structure could support the development to meet certification requirements and local quality marks that could help to promote and market the local products.

The development of overall support structure would include the institutional and legislative support; this however, is dependent on political will. Another problem is that lack of central coordina-

tion of co-operative development and the fact that producers in the same field are often fractured between different organisations that are not clearly converged around central co-operatives. Another issue is the need to audit the co-operatives and control that they would follow the principles of co-operation. This solution could address the frequent concerns that often the co-operatives do not treat their members equally.

## CONCLUSIONS

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As co-operation would provide economic and social competitive advantages to Estonian agricultural producers and rural enterprises the aim of the present paper was to study problems of agricultural co-operatives and opportunities for developing rural economic co-operation in Estonia.

The development of co-operatives in Estonia has suffered from many interrelated problems. While the general consensus is that the co-operation would provide competitive advantage, better marketing opportunities, possibilities for reducing costs etc, in reality widespread co-operative movement did not re-emerge in Estonia. The inability of agricultural producers to cooperate and self-organise themselves in the 1990ies lead into inability to collectively fight for their interests. In the same time the economically weak newly established farms were unable to initiate viable economic co-operatives. Many of those co-operatives that were established proved to be non-viable in the long term as they were unable to mobilise their membership, lacked strong and honest leaders, who would have fought for the collective interests and had not taken economic or political advantage of the situation.

One of the key problems has been the lack of trust between producers and the lack of active leaders and overall lack of knowledge on how co-operatives operate. This could be only addressed by dissemination of information, counselling, training to raise awareness on the possibilities of co-operative movement.

Important factor is the legislative and institutional support that so far has been inconsistent, although it has considerably improved since the middle of 2000s. Another problem is the legislative issue: agricultural co-operatives in Estonia can either be commercial associations or non-profit associations with their own set of constraints. For example, in the strict sense Estonian commercial associations do not correspond to all the co-operative identity principles (International Co-operative Alliance 1995).

The developments in the last 10 years show that the number of agricultural commercial associations is on decline, while the number of non-profit organisations is in a rapid increase. A reason for this is a considerably widened funding opportunities for NGOs following the EU accession.

The overall development of Estonian agriculture has to be taken into account. The dual structure of producers manifests itself also in very different kind of needs and expectations towards the co-operation. This could be addressed through credit and information policy and development of support structure.

The proposals in this paper are far from extensive, but are regarded as rather cheap and efficient issues that could help to achieve the objective of facilitation rural economic co-operation in Estonia.

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# THE RISE, RETREAT AND RENAISSANCE OF BRITISH COOPERATION: THE DEVELOPMENT OF THE ENGLISH COOPERATIVE WHOLESALE SOCIETY AND THE COOPERATIVE GROUP, 1863-2013

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## INTRODUCTION

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In June 2010, Philip Blond, the fast-rising Conservative intellectual, did something which only 20 years earlier would have been almost unthinkable: he addressed the 2010 Cooperative Congress (the annual assembly of the British cooperative movement since 1869). Blond called upon the movement to grow by moving into the vacuum created by the retreat of the British state, as unprecedented cuts in public spending begin to bite. Blond was no mere academic thinker. His book *Red Tory*, published the same year, had made a significant impact and he enjoyed the confidence of David Cameron, the new Conservative Prime Minister.<sup>1</sup> The event marked a stunning reversal of the suspicion with which most Conservatives traditionally regarded the British cooperative movement. Indeed, the last period of Tory domination in the 1980s and 1990s was characterised by support for the conversion of existing mutual and cooperative enterprises into conventional investor-led public companies, as part of an irreversible progress to extinction for what was seen as a 'dinosaur model' of business organisation. This change of heart, though partly a reaction to the crisis in investor-led capitalism precipitated by the international banking failures of 2007/8, was also recognition that since the 1990s British cooperative enterprise, most notably through the Cooperative Group, had revived its fortunes after decades of seemingly terminal decline. By 2009, the Group was expanding rapidly, doubling its share of the food retail market through the acquisition of the Somerfield chain of super-

markets and strengthening its financial services through the merger of the Cooperative Bank and the Britannia Building Society.

## AIMS AND STRUCTURE OF THE PAPER

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This paper will examine the changing fortunes of British cooperation, focussing particularly upon the Cooperative Wholesale Society (renamed the Cooperative Group in 2001). It will explore the organization's structure and strategies, as it adapted to rapid changes and fierce competition in the retail business environment – with varying degrees of success. Some comparisons will be drawn between the evolution of British cooperative business and that of neighbouring European countries, noting the interchange of ideas between cooperatives in different national contexts. The paper draws upon the work of an ongoing business history project into the history of the Cooperative Group being undertaken by Dr Tony Webster of Liverpool John Moores University, and Professor John Wilson and Rachael Vorberg-Rugh of the University of Liverpool. The project is being supported by the Cooperative Group and the Cooperative College, and a book is planned in 2013. As such, the ideas presented in this paper are fluid and subject to further change and evolution. It is a work in progress, and we look to the comments and observations made here in St Louis to help shape our developing ideas in this field.

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<sup>1</sup> P. Blond, *Red Tory: How Left and Right Have Broken Britain and How We Can Fix it* (London, Faber 2010)

In terms of structure, the paper will address the following:

- An outline of the development of British cooperation between the mid 19<sup>th</sup> mid 20<sup>th</sup> centuries – a period which might be described as one of ‘rise and reign’, in which cooperation established itself as a major social and commercial force in British economy and society;
- An outline of the period of retreat between c1960 and c1990. This section will provide some of our key initial findings about the nature of British cooperation. In particular, we explore the origins of some its long term structural weaknesses, which contributed to this difficult period of contraction.
- An examination of the renaissance of British cooperation since the 1990s; charting the path of this recovery and analysing the factors which made it possible. In particular it will outline how some of the long term structural difficulties were overcome.

## THE RISE AND REIGN OF BRITISH COOPERATION C1840-C1960

The emergence of cooperation in Britain in the early nineteenth century is well documented. It arose out of a combination of practical efforts by groups of poorer members of society (artisans, industrial and agricultural workers) to satisfy pressing needs such as the provision of key foodstuffs such as flour or bread, and the energetic proselytisation of the ideas of cooperation by committed intellectual entrepreneurs such as Robert Owen and the Christian Socialists, who saw in cooperatives the basis for a social and economic system based on fellowship and morality, rather than the amoral principles of the market.<sup>2</sup> But it was the development from the mid 1840s of what became known as the ‘Rochdale model’ of consumer cooperation, which saw the proliferation of sustained and sustainable cooperatives throughout the country, though particularly concentrated in the northern and industrial regions. These cooperatives ran stores, selling provisions and other goods to members and the wider public, seeking in the process to improve the quality of foodstuffs and other produce available for working class consumers, and to keep prices down. The ‘Rochdale Principles’ as they became known, dictated the adoption of democratic struc-

tures of governance based on ‘one member, one vote’, the division of profits on the basis of pro-rate purchases (the dividend), as well as commitments to honest trading in high quality produce and the promotion of education.<sup>3</sup>

By the 1850s many of these new societies had been established despite the resentment and opposition of many private traders, who came to regard the movement as a serious threat to their interests. Cooperative stores of course had to find wholesale and other suppliers who would reliably supply produce of the right quality and at reasonable prices, a task made problematic by the existence unscrupulous and exploitative wholesalers, frequently pressured by private retailers not to supply the rival cooperative stores. As a result, in 1863 a number of cooperative societies joined forces, founding the Cooperative Wholesale Society (CWS) – a federal, or secondary, cooperative whose members were the individual retail societies.<sup>4</sup> The main task of this ‘cooperative of cooperatives’, as its title suggested, was to supply cooperative societies with produce, providing an alternative to the sometimes dubious and unreliable services of the non-cooperative sector. In pursuit of this supportive role, CWS established a Banking Department in the early 1870s to provide financial services (banking, overdrafts, loans) to individual societies. Over time, this organisation grew into the Cooperative Bank, a wholly-owned subsidiary of the CWS which from the early 1970s operated as an ordinary commercial bank serving the general public. Beginning in the 1870s the CWS also moved into production, manufacturing its own boots and shoes, drapery and by the middle of the twentieth century a vast array of own brand goods ranging from foodstuffs to furnishings, electrical items and other hardware, which it sold to member societies. As such, the CWS became a major employer in both production and distribution.

Furthermore, the CWS developed worldwide connections in order to source its goods, both within and outside the British Empire. By the end of the 1880s CWS had offices in New York, Rouen, Calais, Rotterdam and Hamburg, and by the early twentieth century these had spread across the globe. It operated a fleet of steamships, the first of which sailed in 1876, running from Liverpool and Goole to European ports to bring supplies of coal, bacon,

<sup>2</sup> G.D.H. Cole, *A Century of Co-operation* (London, Allen & Unwin 1944), Chapter 2

<sup>3</sup> A. Bonner, *British Co-operation* (Stockport, Co-operative Union 1961) pp48-49.

<sup>4</sup> One of the best accounts of the establishment of CWS remains P. Redfern, *The Story of the CWS: The Jubilee history of the Co-operative Wholesale Society 1863-1913* (Manchester, CWS 1913)

and other produce from Germany, Scandinavia, Spain and Greece. In the early 1900s the CWS moved into sourcing raw materials for some goods, acquiring tea plantations in India and Ceylon (Sri Lanka) and sourcing palm oil and cocoa from West Africa.

Inside Britain, the CWS expanded from its headquarters in Manchester, establishing branches in Newcastle and London by the end of the 1870s. By the start of the 20<sup>th</sup> century, it had developed the country's most extensive supply network, serving its member societies through a national web of depots and warehouses. It also worked closely with its counterpart in Scotland, the Scottish Co-operative Wholesale Society (SCWS), established in the late 1860s, especially in the import of major commodities such as tea. As Jeffreys, the renowned historian of UK retailing, demonstrates, the CWS and the cooperative movement pioneered modern large scale retailing in the late nineteenth century – with all of its organisational complexities.<sup>5</sup>

The CWS and the cooperative movement remained a major player in food and domestic retailing well into the twentieth century. Its zenith was probably the Second World War, when cooperative societies played a major role in a range of key wartime policies, including the implementation of rationing policy and supplying the state with important intelligence on the price and supply of essential commodities. By this time, the CWS was a central component in a wider movement, held together by a strong core of active members who ensured that it had a robust social as well as a commercial dimension to its activities through the organisation of national festivals and local social and educational events. Both Walton and Gurney demonstrate that such cultural and social activities were vital in cementing customer loyalty to the local cooperative store.<sup>6</sup> The development of a 'culture of cooperation' also set important parameters for the commercial culture of CWS and its member societies. While promotion of cooperative produce was legitimate within the movement, especially if it stressed its wholesomeness, quality and moral

provenance, there was strong resistance to the adoption of modern marketing techniques, on the grounds that advertising expenditure was wasteful, 'uncooperative' and encouraged consumers to spend beyond their means.

The movement also had a well-developed political dimension as early as the end of World War One. Although the 'Rochdale Principles' included political neutrality, events in the years just before and during the First World War changed many cooperators' minds. In 1917, responding to the wartime government's policies on rationing, conscription and taxation, the movement founded the Cooperative Party, to defend the movement's commercial interests and give voice to cooperative consumers.<sup>7</sup> Following the war, the movement's working class credentials led to the establishment of an important, but difficult, relationship with the Labour Party. After much discussion, the Cooperative Party concluded an electoral agreement with Labour in 1927, and thereafter became in effect a pressure group with the Labour Party on behalf of the Cooperative movement, acting as intermediary between the two organisations.

Labour's commitment to a state-led model of socialism clashed with the voluntarism and suspicion of excessive state power inherent in cooperation; while Labour's close relationship with the trade unions, some of which regarded cooperatives as merely another set of exploitative employers, was also a barrier to easy relations. As Keith Manton shows, even in such key areas as the development of Labour's policies on the retailing industry in the trans-Second World War period, the cooperative movement was a stifled voice, frequently counteracted by shop worker unions who were doubtful of the credibility of its socialist credentials and commitment to protect employee rights.<sup>8</sup> The upshot, as will be seen, was to limit the Cooperative movement's purchase on Labour policy formation, whilst at the same time ensuring that successive Conservative leaderships and administrations saw the cooperative movement as part of the 'enemy camp'. The resulting political marginalisation of

<sup>5</sup> J.B. Jeffreys, *Retail Trading in Britain 1850-1950* (Cambridge, Cambridge UP 1954) p18

<sup>6</sup> J.K. Walton, "The Making of a Mass Movement: The Growth of Co-operative Membership in Lancashire 1870-1914" in B. Lancaster & P. Maguire, *Towards the Co-operative Commonwealth: Essays in the History of Co-operation* (Manchester, Co-operative College and History Workshop Trust 1996) pp17-28; p27; P. Gurney, *Co-operative Culture and the Politics of Consumption in England 1870-1930* (Manchester, Manchester UP 1996) pp199-201. See also N. Robertson, *The Co-operative Movement and Communities in Britain, 1914-1960, Minding Their Own Business*. Ashgate 2010

<sup>7</sup> Sidney Pollard, 'The foundation of the Co-operative Party', in Asa Briggs and John Saville (eds.), *Essays in Labour History, 1886-1923*, (London, Macmillan, 1971); Tony Adams, 'The Formation of the Co-operative Party Re-considered', *International Review of Social History*, 32 (1987), pp.48-68.

<sup>8</sup> Kevin Manton, 'The Labour Party and Retail Distribution, 1919-1951' *Labour History Review* 73:3 (2008) pp269-286.

the movement was a factor in its decline and difficulties in the later twentieth century.<sup>9</sup>

The years between the end of the Second World War and the early 1990s proved to be the most difficult in the history of British cooperative societies. In spite of pioneering such initiatives as self-service, cooperative stores began to lose market share in food and non-food commodity categories to the fast developing multiple retail chains. Especially in food sales, where Sainsbury's, Tesco and several other supermarket innovators came to dominate the field, the decline was inexorable. Co-operatives retained about 20% of the retail market in the 1950s, but thereafter fell to 15% by 1970, and just 5.5% by 1990.<sup>10</sup> The commercial decline was compounded by a steep drop in individual membership. Walton shows for example that the total membership of four leading Lancashire societies fell from about 153,000 in 1957 to 30,000 by 1975.<sup>11</sup>

The movement sought to respond to this retreat in several different ways, none of which was particularly successful. In some ways, this is as puzzling to the modern historian as it was to many cooperative business leaders at the time. It was not as though the problems went unrecognised. As early as 1920, when the General Cooperative Survey Committee reported the results of its six-year investigation into the current state and future needs of the movement, concerns were raised about growing competition from multiple shops and department stores, and the organisational inefficiencies raised by having more than 1,300 independently run cooperative societies spread throughout the UK.<sup>12</sup> In the mid-1950s, as these issues became particularly acute, a new special commission was set up to examine the problems likely to be faced by cooperation in an era of growing prosperity and consum-

erism. The recommendations of the Cooperative Independent Commission (CIC), which included senior Labour politicians Hugh Gaitskell and Tony Crosland among its members, were deeply controversial. The report, published in 1958, stressed the need for the CWS and cooperative societies generally to be run much more like their private sector competitors, recommending modernised management structures, strategic mergers of societies to establish more viable units, and a diminution of democratic accountability to the membership.<sup>13</sup> In spite of this high-profile critique, however, little in the way of effective reform was implemented until the 1990s — though, as we shall see, there were several abortive efforts to overhaul the structures of British cooperation. Ultimately, the major changes in structure and practice were to be forced upon the CWS and other cooperative bodies by events. The roots of cooperative decline, and why that decline proved so difficult to arrest, is the focus of the next section, and perhaps constitutes some of the most important work of the project so far.

## RETREAT 1960-1990 – AND THE ROOTS OF RETREAT 1860-1990

Without doubt, the period between the CIC report and the early 1990s constituted a low point in the fortunes of British cooperation. In addition to the previously mentioned drops in market share and membership, there were spectacular crises, as when a series of poor banking decisions led to the financial collapse of the Scottish CWS in the early 1970s, leading to its absorption by the CWS. The speedy amalgamation of the two Wholesales in 1973 was particularly ironic, as efforts at merger had come to naught many times – in 1944, 1962, and even in 1970.<sup>14</sup> As with many of the changes impacting cooperatives in the second half of the 20<sup>th</sup> century, modernisation often resulted more from economic necessity than proactive reform.

In the short term, most efforts to act on the recommendations of the CIC came to naught. An attempt to bring together the various component bodies within the wider cooperative movement to

<sup>9</sup> Gurney, *Co-operative Culture and the Politics of Consumption* pp169-192; D.Stewart, 'A Party Within A Party'? The Co-operative Party-Labour Party alliance and the Formation of the Social Democratic Party, 1974-1981' – chapter in forthcoming book, A. Webster, A. Brown, D. Stewart, L. Shaw and J.K Walton (eds) *The Hidden Alternative* (forthcoming).

<sup>10</sup> K. Friberg, R. Vorberg-Rugh, A. Webster and J.Wilson, 'The Politics of Commercial Dynamics: Co-operative Adaptations to Post War Consumerism in the UK and Sweden, 1950-2010' (forthcoming)

<sup>11</sup> J. Walton, 'The Post-War Decline of the Retail Co-operative Movement: Nature, Causes and Consequences' in L. Black & N. Robertson (eds), *Consumerism and the Co-operative Movement in Modern British History* (Manchester, Manchester University Press 2009) pp13-31; p23.

<sup>12</sup> Co-operative Union, *Third Interim and Fourth (Final) Reports of the Co-operative Survey Committee* (Manchester, 1919).

<sup>13</sup> L. Black, 'Trying to sell a parcel of politics with a parcel of groceries': The Co-operative Independent Commission (CIC) and Consumerism in post-war Britain' in L. Black & N. Robertson (eds), *Consumerism and the Co-operative Movement in Modern British History* pp33-50.

<sup>14</sup> J. Birchall, *Co-op: The People's Business* (Manchester, 1994), pp147, 162-63.

form a truly unified organisation fell apart in the early 1960s. By 1965, the CWS was seeking to reorganise on its own, seeking to move its relationship with retail societies from a 'selling to' to 'buying for' while also changing its management structure, moving to a part-time Board of Directors and hiring a chief executive from outside the cooperative movement. Hired in 1967, the first Chief Executive of the CWS, P.M. Thomas, launched a massive rationalisation programme. However, Thomas's tragic death in a 1968 plane crash stalled many of his planned reforms. Moreover, the CWS's attempts to coordinate buying across hundreds of independent retail societies were largely one-sided, and many societies chose instead to develop regional buying groups. At the same time, Cooperative Congress resolutions in favour of reducing the number of societies through mergers went largely unheeded throughout the 1960s and 1970s, with amalgamations usually taking place only when particular societies found themselves in financial difficulty.

The 1970s did see some important changes. The acquisition of the Scottish wholesale, which had operated a retail division for decades, meant that the CWS became a retailer in its own right. The Scottish merger also meant that for the first time the CWS had to contend with individual members – which led to the development of a sort of hybrid membership structure with both cooperative society members and individuals represented. It was in this decade that the Cooperative Bank came into its own, changing its name from the CWS Bank, and in 1975 becoming the first new clearing bank in the UK for more than 40 years. But it would be hard to describe these reforms and changes as part of a coordinated and sustained strategy for revival.

This pattern continued throughout the 1980s, as limited reform efforts failed to halt the downward trend in market share. Attempts to modernise included a major internal reorganisation of CWS's departmental structure in the early 1980s and the establishment of a Cooperative Trade Committee in 1986. Meanwhile, as financial conditions worsened for retail societies, mergers became more frequent, with increasing numbers of cooperatives becoming absorbed by the CWS or an emergent rival, the Cooperative Retail Society (CRS). The number of consumer cooperatives fell from about 875 in 1960 to 200 in 1980.<sup>15</sup> In the end, it was not until the 1990s that anything like a coherent plan for reform of the whole movement emerged. Given the parlous state of British cooperation in the later twentieth century, why did this take so long?

At the root of the problem was a political and business culture within British cooperation which had always dispersed political and economic power, rendering even powerful central entities like the CWS or the Cooperative Union relatively impotent. Certainly, neither body had the authority to impose reform, and had difficulty in even persuading the rest of the movement to accept it. The tension between the central bodies and local societies were of long standing – and many in the 1980s might have agreed with the authors of the Survey Report, who wrote in 1919 that "The life, energy and driving power of the Cooperative Movement cannot be permanently directed to a centre or confined within a central organisation."<sup>16</sup>

There were several powerful factors which shaped the development of cooperative business in Britain, and the ability of lead organisations like the CWS to implement reform. The most important period of cooperative society formation during the decades of the mid-nineteenth century was contextualised in a society already well along the path of fundamental economic and social change brought by industrialisation. In the initial, pre-1850 phase of industrialisation, cooperative society formation was a volatile process, involving a high rate of failure as a result of the violent economic fluctuations and problems of the time, and the uncertain legal status of these bodies.<sup>17</sup> But cooperative society formation accelerated in the 1840s and 1850s, as many societies followed 'the Rochdale model' which was proving to be more durable than earlier cooperative forms. An important development was the fact that cooperative societies grew fastest in the most industrialised parts of Britain, and especially in the north of England. As a result, probably a majority of cooperative societies flourished in densely populated, urbanised areas. Such localities already supported a varied business ecology of markets and local stores, within which the new cooperative societies had to compete. Scola, Hodson, Blackman and Winstanley all outline the development of small stores and general grocery provision shops in

<sup>16</sup> Co-operative Union, *Third Interim and Fourth (Final) Reports of the Co-operative Survey Committee* (Manchester, 1919), p48. The report went on to say: "Hence, although during the lifetime of the present generation of co-operators the growth and expansion of the Wholesale organisations has been phenomenal, rightly regarded they are simply the outcome of the greater growth and development of the movement as a whole. Whether the test be trade, manufacture, agriculture or finance, the result is the same." Significantly, both the CWS and SCWS refused to have representatives serve on the Survey Committee.

<sup>15</sup> E. Ekberg, "Consumer Co-operatives and the Transformation of Modern Food Retailing", PhD thesis, University of Oslo (2008), p16.

<sup>17</sup> See G.D.H. Cole, *A Century of Co-operation* (London, Allen & Unwin 1944). Chapter 2.

the early nineteenth century.<sup>18</sup> Jefferys and Alexander argue that the mid 19<sup>th</sup> century was a turning point in the growth of retailing in Britain, as such practices as of advertising, branding and packaging of goods, the development of sophisticated systems of distribution and procurement all took hold. All of this led, inexorably, to the development of large department stores and multiple chains.<sup>19</sup>

Cooperative societies were profoundly influenced by the effects of this local context of ferocious competition with emergent small retailers. In fact, it informed the prevailing ideology and strategy of the leaders and activists in many of the new cooperative societies established from the 1850s. Local societies had to compete for customers, and they also had to find reliable and cost-effective supplies for their stores. Good relationships with local wholesalers were at a premium. Purvis shows that cooperative retailers in the North East of England in the 1860s and 1870s set out to spread risk by strategically buying their goods from a variety of wholesalers and suppliers, in the process keeping costs down and minimising the threat of private trader-led wholesaling boycotts against cooperative stores.<sup>20</sup> This strategy of building local supply chains and allies became especially important in the later nineteenth century, when groups of private traders organised politically against cooperative societies to try to deter wholesalers from supplying cooperative stores.<sup>21</sup>

The development of a strong cooperative presence in local communities was also assisted by the promotion of social and cultural activities organ-

ised by local societies, thereby consolidating a body of active cooperative supporters who could act as a counterweight to hostile private storekeepers. In this sense such activities had a practical as well as an ideological and political importance. Festivals, reading rooms and a vibrant members' social life ensured consumer loyalty to the local store, and formed a useful protective pressure group. Walton demonstrates how cooperatives penetrated local communities in Lancashire, particularly in cotton manufacturing centres.<sup>22</sup> Gurney emphasises that local social activism was crucial in propagating cooperative ideas and in inspiring rigorous defence of local societies in response to opposition.<sup>23</sup> British cooperation at the local level was thus characterised by a powerful sense of its position in the local community. It joined a strong sense of the need to be commercially competitive to a shrewd recognition of the need to build local support through socio-cultural activities to supplement the attractive power of the dividend. In February 1875, the *Co-operative News* celebrated the strength of local activism in cooperative societies of North East England:

. "Each of these stores is a little centre of power in its district, and the public spirit of the leading men has contributed in no small degree to consolidate the cooperative idea in the mind of the masses of the people. Though no organized system of propaganda has been established, still at annual tea parties and by private effort much has been done to spread knowledge of the advantages their societies confer on those who have the wisdom to join them"<sup>24</sup>

The fierce localism and independence of cooperative societies shaped their relationships the CWS after its formation in 1863. The CWS was established by its founders to create an enclosed system for supplying local societies which was entirely independent of the market. In the decades that followed this was diluted into the more practical aim of ensuring at least one reliable source of produce

<sup>18</sup> See D. Hodson, "The Municipal Store: Adaptation and Development in the Retail Markets of Nineteenth Century Industrial Lancashire" *Business History* 40:4 (1998) pp94-114; R. Scola, "Food Markets and Shops in Manchester 1770-1870" *Journal of Historical Geography* 1:2 (1975) pp153-168; J. Blackman, "The Food Supply of an Industrial Town: A Study of Sheffield's Public Markets 1780-1900" *Business History* 5:2 (1963) pp83-97; J. Blackman, "The Development of the Retail Grocery Trade in the Nineteenth Century" *Business History* 9:2 (1967) pp110-117; M. Winstanley, *The Shopkeepers World 1830-1914* (Manchester, Manchester UP 1983) pp2-19.

<sup>19</sup> J. Jefferys, *Retail Trading in Britain, 1858-1950* (Cambridge Cambridge UP 1954); D. Alexander, *Retail Trading in England during the Industrial Revolution* (London, Oxford University Press 1970); N. Alexander and G. Akehurst, "Introduction: The Emergence of Modern Retailing, 1750-1950" *Business History* 40:4 (1998) pp1-15.

<sup>20</sup> M. Purvis, "Stocking the Store: Co-operative Retailers in North East England and Systems of Wholesale Supply circa 1860-1877" *Business History* 40:4 (1998) pp55-78; p62.

<sup>21</sup> Winstanley, *The Shopkeepers World* pp83-89; A. Bonner, *British Co-operation* (Manchester, Co-operative Union 1961) pp111-112.

<sup>22</sup> J.K. Walton, "The Making of a Mass Movement: The Growth of Co-operative Membership in Lancashire 1870-1914" in B. Lancaster & P. Maguire, *Towards the Co-operative Commonwealth: Essays in the History of Co-operation* (Manchester, Co-operative College and History Workshop Trust 1996) pp17-28; p27.

<sup>23</sup> P. Gurney, *Co-operative Culture and the Politics of Consumption in England 1870-1930* (Manchester, Manchester UP 1996) pp199-201. See also N. Robertson, *The Co-operative Movement and Communities in Britain, 1914-1960, Mind-ing Their Own Business*. Ashgate 2010.

<sup>24</sup> 'Northern Letter' by James McKendrick, *Co-operative News* 6 February 1875, Vol 6, p67.

for local cooperatives in the uncertain wholesaling environment of the later 19<sup>th</sup> century. But from the start, there were major differences over what the CWS was for. For the leaders of CWS, its goal was to become the principal, and preferably the sole, supplier to local cooperative societies. This objective implied CWS becoming an important trader both nationally and internationally, a major manufacturer and a pivotal intermediary between producer and consumer cooperatives. The aim, in the eyes of its management, was that CWS would become the commercial leader of cooperation in England and Wales, as its counterpart, the Scottish Wholesale Society, was becoming north of the border. *The Co-operator* and its successor from the 1870s, the *Co-operative News*, argued that it was the duty of the CWS' cooperative society member to conduct the maximum possible trade with CWS. In the 1870s, the *News* regularly 'named and shamed' societies for the small quantities they purchased from CWS, in an effort to embarrass them into buying more.<sup>25</sup> Among the worst culprits was none other than the Rochdale Pioneers!<sup>26</sup>

The problem was that many local societies saw the CWS as just another supplier, which had to be competitive in price and quality with other suppliers. For them, CWS was important principally because it offered an alternative to their other wholesalers should they prove too demanding in price, or choose to fall in with anti-cooperative movements. As a result, many cooperative societies proved reluctant to buy their supplies solely from CWS. This became a major bone of contention, and the *Co-operative News* throughout the 1870s and 1880s continued to run stories about various societies' disloyalty in their commercial relations with CWS. An editorial article of January 1886 was typical:

It is noticeable that at nearly all business meetings the claims of the Wholesale on the local stores are frequently urged, and as a rule the arguments pro and con are comprised in statements as to the ability or otherwise of the Wholesale to do better for the local store than the ordinary trader in the open markets can.

But still the fact remains that a large portion of the cooperative business which ought to be transacted at the Wholesale passes its doors in favour of the ordinary competitive trader. The

arguments in favour or against such a practice have hitherto not interfered to prevent it, the controversy goes on, but still the custom that ought to go to the Wholesale goes out of the movement, and though the amount of this in proportion to the whole cooperative business may year by year decrease, it is right to say that it may increase, and therefore it is imperative that we discover, if we can, some method of looking at the question that shall leave no doubt as to what is dictated by cooperative duty, and by a true understanding of the best interests of cooperation.<sup>27</sup>

As late as 1892, a survey of 942 cooperative societies in England showed that of the £18,037,850 purchases they made in 1890, only £6,663,416 (37%) was from CWS.<sup>28</sup> The views of one Mr Jagger, a manager with the Oldham Equitable Society, were not untypical of many of the men who sat on the committees of local cooperative societies. At a conference in Oldham on 31 October 1886, having listened to a paper by a Mr Moorhouse of Delph entitled "The present position of the Wholesale Society and the obligations of the individual stores", Jagger spoke for a number in the audience who were quite immune to Moorhouse's criticisms:

He had been a supporter of the Wholesale from commencement, and had never been a fortnight without going there. Therefore he thought he had been a loyal supporter from its foundation, and he had had pleasure in watching its growth. To his mind, the first duty of a manager was to his own society. Those who pay the wages should have the first claim to the diligent services of those they employ. He had had to use his best judgement in spending money, and he did not think any of his directors would disagree with him as to the way in which he had exercised his discretion. He had always understood that the Wholesale had been established for the benefit of cooperative societies, and he was sure it had been of benefit to those who had taken advantage of its advantages. The Wholesale was intended to do away with the middleman but for some years now it had been the practice of the board that before doing business with a merchant or dealer, they had tried to get his agreement that he would not call upon individual societies but let the trade be done through the Wholesale. That took away

<sup>25</sup> For example, 'The Trade of the Wholesale', *Co-operative News* 6 April 1876, Vol 7, p175.

<sup>26</sup> 'The Wholesale and the Retail Societies', *Co-operative News* 15 March 1879, Vol. 10, p171. The article showed that Rochdale Pioneers purchases from CWS amount to only 16 per cent by value of Rochdale Pioneers' sales.

<sup>27</sup> Editorial Article, 30 January 1886 *Co-operative News* Vol 17 p108

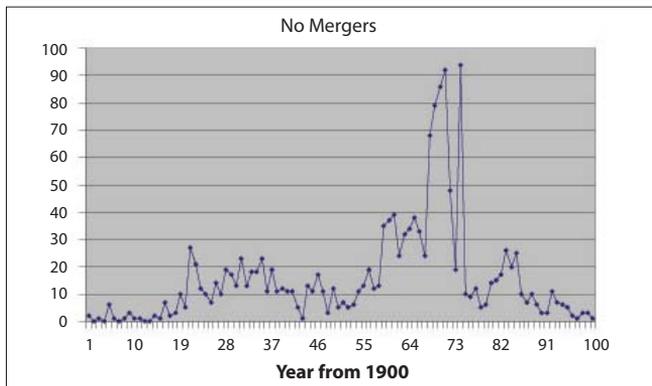
<sup>28</sup> CWS Annual 1892 p489

from the societies an opportunity and a privilege. For instance, some manufacturers were in a position to serve them better than the Wholesale could, in consequence of being in their immediate neighbourhood. Then he thought it was rather too much to expect that any business house could be to the front in everything.<sup>29</sup>

The CWS also found that emergent producer, or worker, cooperatives became a source of friction and dissent. In the 1870s the CWS promoted producer cooperatives by selling the produce of the latter to consumer societies, and with credit supplied through the CWS Bank. But many producer cooperatives failed, with heavy losses for CWS resulting from defaults on loans and overdrafts.<sup>30</sup> In June 1881, CWS had to write off £32,000 of these debts<sup>31</sup>.

In the early 1880s, some member consumer societies objected vociferously to what they regarded as the imprudent application of CWS funds.<sup>32</sup> In reality, the CWS was

unable to make local societies sufficiently commercially dependent upon CWS supplies to secure leadership of the movement. This problem proved intractable, in spite of the expanding scale of CWS commercial and productive operations. Herein lay an important reason for the failure of attempts to reform the business practices of cooperation in Britain. Incapacity to lead was exacerbated by the divided nature of cooperative organisation on the national stage. The Cooperative Union was set up in 1869 as a separate entity from CWS, ensuring a forum for, and occasional leadership of, rival strategies to those of the CWS.<sup>33</sup> The problem was replicated after the formation of the CWS Retail Society in 1927, originally to promote cooperation in areas of England where the movement was struggling<sup>34</sup>. After World War Two, this became the Cooperative Retail Services Ltd (CRS). As its operations expanded, the CRS became a rival centre to CWS. Thus separation of powers at the national level, combined with the CWS's loose commercial federal



Mergers, 1900-2000; peak years are 1970 and 1973. Chart created by Roger Spear, available from National Cooperative Archive.

<sup>29</sup> Report on a Conference held at Oldham on 31 October 1886, *Co-operative News* 6 November 1886 Vol. 17 p1095.

<sup>30</sup> In 1878, for example, it was reported that CWS had lost £7,351-0s-3d on its loans and investments in the Eccleshill Coal Company. Minutes of General & Branch quarterly Meetings, December 1878, Committee's report (printed), Minutes of the General Committee of CWS 1878, Vol. 5 pp69-74, New Century Hall, Manchester.

<sup>31</sup> Minutes of General Quarterly Meeting, Manchester 18 June 1881, Minutes of the General Committee of CWS Vol 6 pp143-144.

<sup>32</sup> For example, motion to Quarterly general meeting of CWS, 18 June 1881 adopted by the Newcastle branch, but coming from one of its local societies, "That in future no loans or overdrafts be allowed to other than distributive co-operative societies or to societies whose shares are held by such societies"

structure, which harboured fundamental differences between the centre and local societies about the purpose of CWS, made for a dysfunctional business federation.

By the period of deepening crisis in the 1970s and 1980s, the problems of federal dysfunction were exacerbated by further developments. Ekberg shows that obstacles to coordinated reform within the cooperative movement became even more intractable as the merger trend accelerated, reducing the number of societies to around 40 by century's end (see also chart, above).<sup>35</sup> It might seem reasonable to expect that having fewer societies to persuade would make CWS reform policies easier

<sup>33</sup> Bonner, pp821-83.

<sup>34</sup> *Ibid.*, p171

<sup>35</sup> Ekberg, "Consumer co-operation and the transformation of modern food retailing" p59

to achieve. The movement's dwindling active membership in this period might also be expected to weaken resistance from those who equated reform with degeneration into the unscrupulous capitalist organisations to which cooperation was supposed to offer an alternative.<sup>36</sup> Instead, the creation of large, well-resourced regional cooperatives merely encouraged even stronger notions of independence from CWS.<sup>37</sup> Many of these larger societies moved into wholesaling, making them rivals with CWS, just as CWS' move into retailing in the 1970s, and the subsequent absorption of large retail societies into its operations made it a rival to local and regional societies. In truth, regional societies were pursuing a doomed policy, because it led to inefficient duplication of functions and limited their ability to engage in mass, national-scale bulk buying. Ingrained regional and local independence now combined with an increasingly combative attitude towards CWS, increasing the obstacles to proactive reform.

Poor leadership within the CWS did little to help matters. Several senior CWS figures from the 1970s recite a host of internal problems: an ossified management structure, outmoded ideas among senior managers, a lack of outside talent, tensions between the member-elected Board and its senior managers, and conflicts between the CWS and other national bodies.<sup>38</sup> In respect of the latter, rivalry between CRS and CWS was a particular obstacle to coordinated reform efforts. Another issue was the lack of communication and strategic coordination between the CWS, the Cooperative Bank, and the Cooperative Insurance Society (CIS). Although both the Bank and the CIS were wholly-owned subsidiaries of the CWS, their management structures were almost entirely disconnected from their parent body. Despite the close proximity of CWS headquarters at New Century House and the CIS building just two blocks away, one CWS insider vividly captured the spirit of intrigue, mistrust and rivalry that pervaded at the time, describing the brief stroll between the two head offices as "the longest walk in Manchester". All of these factors combined to undermine the development of a cohesive policy to arrest falling market share and combat the ever-

growing competitive pressures facing food retailers generally. This raises the question – out of this morass, how was reform and revival achieved?

## THE 1990S: RENAISSANCE

After decades of decline, the 1990s saw a transformation of British cooperation which stands in stark contrast to the ineffectual efforts of the preceding period. The details of the revival are important to note, and give the impression of initially piecemeal and tentative changes rapidly turning into something far more ambitious and fundamental. In the early 1990s, the first significant steps involved a return to some of the earliest cooperative principles and its unique selling point: the concept of ethical trading. In 1989 the CWS ran its Environmental Care campaign, establishing itself as the first retailer to offer green products. This was followed by 1992 by a significant move into retailing Fair Trade products, which ultimately led to the movements' entire own-brand lines of coffee and chocolate becoming certified as Fair Trade. In the same year, the Cooperative Bank rolled out its ethical policy, which dictated that the Bank would not invest in businesses that operated in areas of concern to its customers. While these might appear to be just another marketing strategy, they were in fact highly significant. Ever since the CIC report attempts at reform had been in essence imitative – intended to make the CWS and cooperative societies behave more like their private trade competitors. The turn to ethical trading represented a genuine attempt to differentiate the Coop from its competitors, by effectively returning to the core values of the movement.

More structural change followed. In 1993, CWS, in collaboration with several large regional cooperatives formed the Cooperative Retail Trading Group (CRTG), a body which essentially coordinated buying for its members. Although it would take more than a decade for all the independent cooperatives to sign on – at one point, CRS even started a rival buying group – CRTG was a major step forward in transforming the potential buying power of the movement into reality. Inside the CWS, the creation of CRTG also signified a growing awareness that retailing, not manufacturing, was becoming their primary business. Remembering the early part of his career in the 1970s, one CWS senior manager recalled that 'at the time the CWS was totally focused on making *things*, which we then sold to retail societies.'<sup>39</sup> By the 1990s, how-

<sup>36</sup> This erosion of the co-operatives as centres of social and political activism is well recorded in J.K. Walton, "The post-war decline of the British retail co-operative movement: nature, causes and Consequences" in Black and Roberston, *Consumerism and the Co-operative Movement in Modern British History* pp13-31.

<sup>37</sup> Ekberg, *Consumer Co-operatives and the Transformation of Modern Food Retailing* p300.

<sup>38</sup> Interview with Sir Graham Melmoth, 8 September 2010

<sup>39</sup> Interview with Bill Shannon, 10 November 2010.

ever, the focus had changed to retail – in part due to an increasingly global market for manufactured goods and in part due to the increasing number of retail operations incorporated into the CWS through mergers. In 1994, the CWS moved out of food manufacturing altogether, selling its operations. The sale was to Hobson's, a firm controlled by the young City entrepreneur Andrew Regan – who, as will be seen, harboured even greater ambitions in respect of CWS.

As it happened, the changes of the early 1990s were only the beginning. The appointment in 1996 of Graham Melmoth as Chief Executive marked a radical acceleration of the pace of change. Melmoth, a career CWS executive since the 1970s, was ideally placed to assess what was needed. An experienced former Controller and CWS secretary, Melmoth possessed a powerful grasp of the internal politics of CWS and the wider cooperative movement. Moreover, in the year before his appointment to the top job at CWS Melmoth had been named president of the International Cooperative Alliance (ICA), the movement's global apex body, just as it concluded the first review of cooperative values and principles it had undertaken since the 1960s. Melmoth's view of the CWS was grounded in the distinctively cooperative values put forth in the ICA's Statement of Cooperative Identity, and the new chief executive made it clear that he intended that his term would be revolutionary in its implications. He immediately launched a major strategic review, which addressed not merely issues of business organisation, but essentially called for a rethinking of cooperative business values and principles for the modern era. Change was to be rapid and it was to be cultural, as well as organisational.

But no sooner did Melmoth take its seat, than Regan launched a takeover bid for the CWS through his City vehicle, Lanica. The early 1990s had seen numerous demutualisations of Building Societies in Britain, and Regan probably believed that he could ride this particular business wave. However, Regan made two fundamental mistakes. First, he misunderstood the complex ownership structure of the CWS, operating under the inaccurate assumption that individual members could be 'bought out' through one-time windfall payments as had occurred in many building societies. Second, Regan illegally obtained insider information from two senior CWS managers, Allan Green and David Chambers, who eventually served prison time for their role in the affair. Green was caught on film by private investigators hired by the CWS –

video which was shown on national television and effectively scuppered the bid.<sup>40</sup>

Although a difficult chapter in CWS history, in retrospect the Lanica affair could not have come at a better moment for Melmoth and his efforts to revitalise the CWS and the cooperative movement. The takeover bid received widespread media attention, raising a public outcry from many who viewed it as an attack on a beloved, if sometimes shabby, national institution. One result was an increase in activity among members, who turned up in large numbers at membership meetings and passed rule changes to make any future takeover bids more difficult. Another outcome was the establishment of a new Cooperative Commission, appointed in 2000 by then-Labour Prime Minister Tony Blair. This time, unlike the 1958 report, the Commission's report set its stall on a distinctive cooperative identity, arguing for the movement to improve performance *on the basis of* ethically sound trading and financial policies, and rebuilding an active membership.

Melmoth's success in seeing off the bid, and his unwavering support at the time for the CWS' cooperative identity, helped him persuade others to back this reform agenda. The Lanica victory seemed to accelerate the pace of change, and Melmoth set about turning the rag-bag of uncoordinated businesses into a coherent family of 'successful cooperative businesses', with equal emphasis on all three words. Alongside his efforts to streamline procurement, improve product lines and modernise store interiors, Melmoth implemented courses in cooperative values for all senior managers and raised the profile of regional membership structures. He also led the re-introduction of the dividend in cooperative stores and encouraged cross-marketing across the 'family of businesses', developing links between retail outlets and financial services through the Cooperative Bank and CIS. Other decisions were more controversial, notably the decision to retreat from the hypermarket sector of food retailing and concentrate its efforts on smaller shops and the convenience sector. Finally, after many years of failed talks, Melmoth successfully brought about a merger of the CWS and CRS in 2002, and the organisation was renamed the Cooperative Group.

In the 2000s, under the leadership of Melmoth (1996-2002) and his successors, Martin Beaumont

<sup>40</sup> For a contemporary account, see B. Laurance, 'How a City whiz-kid was scalded: a tale of cheques, lies and videotape', *The Observer* (27 April 1997). For a detailed analysis of the Lanica affair, see J.F. Wilson, "Co-operativism meets City Ethics: The 1997 Lanica take-over bid for CWS" in *The Hidden Alternative: Co-operative Values, Past, Present & Future* (Manchester, Manchester University Press forthcoming)

(2002-2007) and Peter Marks (2007-present), the Cooperative Group has gone from strength to strength. The acquisition of convenience store chain Alldays in 2002 and food retailer Somerfield in 2008 doubled its share of the retail food market, so that today the Group is the 5<sup>th</sup> largest food retailer in Britain. Another key cooperative merger brought United Northwest into the Cooperative Group in 2007, and today the Cooperative Group accounts for more than 80% of consumer cooperative trade. Since 2002, the CRTG has included every cooperative society in the country, so that the buying arrangements for the Group and the 25 remaining independent societies are coordinated. Financial services, which have made up an increasing share of the CWS/Group's profits since the 1970s, were integrated in 2002, when the Cooperative Bank and CIS merged to form Cooperative Financial Services (CFS). A further merger with the Britannia Building Society in 2009 has continued to expand this area of the business.

Today, and perhaps for the first time in its history, one can speak of a truly coherent, national cooperative organisation. The question remains: why was change achieved in the 1990s when it had proved so elusive for so long? Several key reasons really stand out. First, as the CWS' attempts to reorganise in the 1960s proved, as long as there were hundreds of separate cooperative societies, the CWS did not have the authority to push a modernisation agenda. It took major changes in the internal political dynamics of the movement – what one might call a 'falling to the centre' – for the CWS to be able to implement movement-wide reforms. Secondly, the decline of cooperative businesses was, paradoxically, an essential ingredient for eventual commercial recovery. As market share and profitability declined in the 1980s, retail societies were forced by financial circumstances to reduce their numbers through mergers, a process in which the CWS assumed an increasingly significant role. This certainly helped remove potential opponents and obstacles to change; ironically it helped remove the key problem of resistance from below – a key element in the cooperative federation's dysfunctional past.

Third, while CWS and the movement generally had been in great difficulties for many decades, there remained within it, both within the membership and among its managers, individuals who remained committed to the cooperative ideal. The reasons for this are intriguing, and still the subject of ongoing research. But it does seem that cooperative businesses generally, and the CWS specifically, remained attractive to young managers, even in its

period of decline. In particular, it seems to have attracted a certain type of young graduate emerging from Britain's expanded higher education sector in the 1960s and 1970s -- young people who were interested in a business career, but whose left of centre sympathies made cooperatives especially appealing. Certainly Melmoth – but also a generation of rising managers – fell into this category. It was no coincidence that the pace of reform accelerated just as this generation reached positions of real power and influence within the movement; but especially in such key organisations as CWS, CRS and the Cooperative Bank. In this sense, British co-operation, for all its difficulties, avoided the loss of ideological purpose which has been instrumental in the demise of cooperative movements elsewhere; notably in France, Germany and Austria. Whether the new generation of cooperators can successfully recapture the idealism of early cooperation, whilst simultaneously maintaining the successful commercial momentum of recent years, of course remains to be seen.



## CHAPTER 2

# CO-OPERATIVE MANAGEMENT, OTHER ORGANIZATIONAL ISSUES AND LEGAL FRAMEWORKS



# SHARED LEADERSHIP IN FINNISH CUSTOMER-OWNED CO-OPERATIVE BANKS

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## INTRODUCTION

Leadership in business and industrial organizations has traditionally been seen as a symbol of power – that of the top-down approach so, that the execution of organizational behavior is seen as influenced primarily by the chief executive (Kearins, 1996). Individual leadership has thousands of years of cultural background which makes it very difficult to propose alternative aspects of leadership. Plato proposed that leadership is a very rare skill of a single, rare individual who has the unique wisdom and relationship to the truth. Later Plato's student Aristoteles tried to point out that nothing is black-and-white that the truth has a complex nature. Still, Plato's idea maintained and since then leadership has been seen as partial control by a single leader (O'Toole, Galbraith & Lawler, 2003, 251).

The information age (post-industrialism) has challenged the traditional notions of leadership (Moxley, 2000; MacNeil & McClanahan 2005), emphasizing the role of knowledge as a source of power and as a "vehicle" of particular interests. That is, even though hierarchies have been a norm, we are moving away from a time when a strong hierarchy worked for our organizations (Spears & Lawrence 2002). Foucault (2001; 1998) proposes that power functions in complex networks and it is in motion all the time. In this process view the leader in any given situation is the person that has the desired knowledge and skills for that specific context. Leadership is shared (i.e., a variety of people interactively involved in the process, all sharing power and leadership instead of a single

individual holding the leadership role). From this perspective the main job of the administrator in shared leadership is to enhance the skills and knowledge of the people in the organization to create the collective result (Elmore, 2000).

As a concept, shared leadership is not new. It is the basic concept of two or more people sharing power and joining forces to move toward accomplishment of a shared goal (Moxley 2000). As "a dynamic, interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group or organization goals or both" (Pearce and Conger 2003b), shared leadership has been said to offer a concept of leadership practice as a group-level phenomenon (Pearce & Conger, 2003b; Senge 1990). The key distinction between shared leadership and traditional models of leadership is that the influence process involves more than just downward influence on subordinates by an appointed or elected leader (Pearce and Conger 2003b). Even though shared leadership has been talked about as a new leadership model, it has several connections to old theories. Pearce and Conger (2003b, 4-5) have pointed out historical bases of shared leadership as seen in table 1 below:

<b>Historical Bases of Shared leadership</b>		
<b>Theory/Research</b>	<b>Key issues</b>	<b>Representative Author</b>
Law of the Situation	Let the situation, not the individuals determine the "orders".	Follet (1924)
Human relations and social system perspective	One should pay attention to the social and psychological needs of employees.	Turner (1933)
Role differentiation	Members of groups typically assume different types of roles.	Mayo (1933), Barnard (1938) Benne and Sheats (1948)
Co-leadership	Concern the division of the leadership role between two people – primarily research examines mentor and protégé relationship.	Solomon, Loeffler, and Frank (1953) Hennan and Bennis (1998)
Social exchange theory	People exchange punishments and rewards in their social interactions.	Festinger (1954) Homans (1958)
Management by objectives and participative goal setting	Subordinates and superiors jointly set performance expectations.	Drucker (1954), Erez and Arad (1986)
Emergent leadership	Leaders can "emerge" from a leaderless group.	Locke and Latham (1990) Hollander (1961)
Mutual leadership	Leadership can come from peers.	Bowers and Seashore (1966)
Expectation states Theory and team member exchange	Team members develop models of status differential between various team members.	Berger, Cohen, and Zelditch (1972) Seers (1989)
Participative decision making	Under certain circumstances, it is advisable to elicit more involvement by subordinates in the decision-making process.	Vroom and Yetton (1973)
Vertical dyad linkage/leader member exchange	Examines the process between leaders and followers and the creation of in-groups and out-groups.	Graen (1976)
Substitutes for leadership	Situation characteristics (e.g., highly routinized work) diminish the need for leadership.	Kerr and Jermier (1978)
Self-leadership	Employees, given certain conditions, are capable of leading themselves.	Manz and Sims (1980)
Self-Managing work teams	Team member can take on roles that were formerly reserved for managers.	Manz and Sims (1987, 1993)
Followership	Examines the characteristics of good followers.	Kelly (1988)
Empowerment	Examines power sharing with subordinates.	Conger and Kanungo (1988)
Shared cognition	Examines the extent to which team members hold similar mental models about key internal and external environmental issues.	Klimoski and Mohammed (1994) Cannon-Bowers and Salas (1993) Ensley and Pearce (2001)
Connective leadership	Examines how well leaders are able to make connections to others both inside and outside the team.	Lipman-Blumen (1996)

**Historical Bases of Shared leadership. (Pearce & Conger 2003b, 4 – 5).**

Nemerowicz and Rosi (1997) compare classical and shared leadership to clarify the terms and to contrast views of leadership (table 2):

<i>Classical and shared leadership compared</i>	
<b>Classical leadership</b>	<b>Shared leadership</b>
Displayed by a person's position in a group or hierarchy.	Identified by the quality of people's interactions rather than their position.
Leadership evaluated by whether the leader solves problems.	Leadership evaluated by how people are working together.
Leaders provide solutions and answers.	All work to enhance the process and to make it more fulfilling.
Distinct differences between leaders and followers: character, skill, etc.	People are interdependent. All are active participants in the process of leadership.
Communication is often formal.	Communication is crucial with a stress on conversation.
Can often rely on secrecy, deception and payoffs.	Values democratic processes, honesty and shared ethics. Seeks a common good.

Drawing from material in Gloria Nemerowicz and Eugene Rosi (1997) *Education for Leadership and Social Responsibility*, London: Falmer Press. Page 16.

Shared leadership can be examined through two different approaches, pragmatic and organizational-humanistic approach. A pragmatic approach concerns the questions of leadership (Fletcher & Käufer, 2003, 24), teamwork, appointed or emergent leader (Cox, Pearce & Perry 2003, 49-51) and models of shared leadership (Locke, 2003) where organizational-humanistic approach understands shared leadership as a pervasive way to be and a part of organizational culture (Ropo, Lehtimäki & Eriksson, 2005) and as relationships in organizations (Sydänmaanlakka 2003).

While the concept of shared leadership has been studied in team settings (eg. Mehra et al 2006; Carlson et al 2007) and wider collaborative settings (e.g Hauxham & Vangen 2000; Lambrechts et al 2011, it seems rather surprising that literature on co-operative management has not followed the notions of shared leadership to advance theory on the topic. Emphasizing the power of single managers, Davis (2001, p. 38) has pointed out co-operative managers' important and powerful position as authorized leaders, a "stand-alone-hero" of the membership who should be "capable of seeing farther and in seeing be capable of communicating and motivating to turn the vision into reality" (Davis, 2001, p. 38) through words and action (Westley and Minzberg 1989). It has also been put forward that democratic system of governance in DMOs in their institutional context runs the risks of managers becoming powerful and entrenched in poorly performing social economy organizations, unless countervailing measures are adopted (Spear, 2004). However, despite the fact that managerial position in co-operatives has traditionally been seen through lenses of traditional leadership, consumer co-operatives have also often been described as democratically controlled network organizations (eg, Uski, Jussila and Saksala, 2007; Spear, 2004). Additionally, recent research (Tuominen, Jussila and Rantanen, 2010) has highlighted the importance of collective and participative decision-making skills for co-operative managers, suggesting that shared leadership is likely to occur in the context of consumer co-operation.

Uski, Jussila & Saksala (2007) suggest that reaching decisions in a co-operative organization is "very much a collective process" which is consistent with the work of Hardy, Lawrence and Grant (2005) who maintain that "effective collaboration among organizations is a difficult task; not only must co-operation and innovation be achieved, but the interest of those organizations represented in the collaboration must be met" (p. 59) and that the challenge is even greater as "co-operation among participants cannot be secured through market

or hierarchical forms of control" (p. 59). Our study supports even these notions of network organization and decision-making as a collective and participative decision making process.

In this paper, we will fill the gap by investigating leadership of co-operatives from shared leadership perspective. A starting point for our work is that traditional leadership discourses should not constrain our attempts to enrich the field. Given that discourses are ideologically laden (van Dijk, 1998), a critical analysis of framings is required. Thus, our paper starts by uncovering some of the assumptions underlying existing studies of leadership and the ideologies these studies reiterate. Another starting point is that in the processes of knowledge creation we should give voice to those who are viewed as the object of co-operative education. This will not only help enrich the field, but may have practical implications as well. Thus, we analyse the dimensions of leadership in co-operatives by giving a voice to top managers. To increase the relevance of our work, we make use of our data to advance knowledge on the different contexts of leadership (cf. Tuominen, et al., 2010). We conclude by specifying how our work complements existing research (e.g., Tuominen et al., 2010) and how it should be elaborated on future research. We also specify certain implications to the practise of leadership education for the purpose of co-operatives and discuss the reach of these implications.

## CONTEXT, DATA AND METHODS

Our research data is based on thirty-six thematic interviews with top managers and managing directors in OP-Pohjola Banking Group which today provides banking, investment and insurance services. OP-Pohjola Group, the biggest financial group in Finland, is made up of 210 independent, local member co-operative banks, central bank Pohjola Inc, (formerly OKO Inc) and OP-Pohjola Group Central Co-operative (OPK), including its subsidiaries and closely related companies. OKO Bank, founded in 1902, is a Finnish bank listed on the Helsinki Stock Exchange since 1989, with a market capitalisation (A and K shares) of approx. EUR 1,300 million as of September 9, 2005. OKO Bank is the most significant subsidiary of the Central Co-operative. OP-Pohjola Central Co-operative is the central institution of the amalgamation of the co-operative banks, tasked with supervising and controlling the Group's business in line with the jointly agreed strategy, profitably and through effective risk management, as well as in compliance with the shared rules and legal requirements. It also analyses the

operating environment, collects information about financial sector changes and markets, and answers for the Group's corporate image, reputation, identity and brand while building the Group's shared trustworthiness (OP-Pohjola Group annual report 2009). OPK is owned and governed by local regional banks, which in turn are owned and governed by their local members (approximately 1.1 million). Co-operative banks in OP-Pohjola Group provide banking and financial services to private customers, firms and communities ([www.op.fi](http://www.op.fi), [intranet](#), accessed daily in 2011). These 210 independent member banks are rather different in size and can be shared in three groups: about 15 biggest banks comprises 50 % of the volume of the group, about 40 middle-size member banks 25 % and the rest, 155 small banks 25 %. The biggest bank is Helsingin Op -pankki with 320.000 customers, 36 offices, 811 workers, operating profit 36,2 million euros (31.12.2010) and balance of 4,555 million euros, when the same statistics to one of the smallest, Uukuniemen Osuuspankki are 1.000 customers, 1 office, 4 workers, operating profit 92.000 euros (31.12.2010) and balance of 11.120 euros.

As Gephart (2004) has pointed out, qualitative research is highly descriptive, emphasizes the social construction of reality, and focuses on revealing how extant theory operates in particular examples (Gephart 2004, 454-455; Eisenhardt & Graebner 2007). The data of this qualitative study (Denzin & Lincoln 1994) was collected by the authors, and it consists of interviews, observations as well as massive quantity of archive materials. Recorded and transcribed material from the interviews was at the disposal of all authors of this study. The data was first studied systematically in order to understand the context of our study. After this the data was organized under different themes and analysed in detail in order to reach the objectives of the study. To increase reliability, all three authors analysed the data both together and separately. The data we analyse from the managers' accounts to identify discourses and their connections (Alvesson & Kärreman, 2000).

According to Simon (1967), a key mission of business schools is to produce research that advances practice. Van de Ven and Johnson (2006) draw on Simon to propose a pluralistic collective of researchers and practitioners using "engaged scholarship", a research method proposed to solve the "knowledge production" problem, a method which emphasises the importance of a "dialectical method of inquiry" and intellectual arbitrage to create practitioner-meaningful research (Van de Ven & Johnson 2006; Fendt, Kamiska-Labbé & Sachs, 2007). Dialectics is a process of arriving at

the truth through confrontation of different point of view (Fendt, Kamiska-Labbé & Sachs, 2007, 7). Dialectics and cross-community working in deciding what subjects to research is recommended by Van de Ven and Johnson (2006, 803): "by leveraging their distinct competencies, groups composed of researchers and practitioners have the potential to ground and understand complex problems in ways that are more penetrating and insightful than they would be were either scholars or practitioners to study them alone". The authors of this article fulfil Van de Vens and Johnsons idea: two of three authors are academic researchers, the third author is a postgraduate student but also a practitioner with over 20 years banking career as a manager in a co-operative Op-Pohjola Group.

## SHARED LEADERSHIP IN TWO DIFFERENT DECISION-MAKING CONTEXTS

Sun Tzu, the ancient Chinese military general, strategist and philosopher said: "Leadership is a matter of intelligence, trustworthiness, humanness, courage, and discipline . . . Reliance on intelligence alone results in rebelliousness. Exercise of humaneness alone results in weakness. Fixation on trust results in folly. Dependence on the strength of courage results in violence. Excessive discipline and sternness in command result in cruelty. When one has all five virtues together, each appropriate to its function, then one can be a leader" (Pockell & Avila, 2007).

An organization must always have a leader - there is no organization, team or group that operates in a total democracy. In traditional leadership the one who has knowledge has power. Typically this has been the CEO of the firm. The traditional assumption of management studies that of one powerful leader in a company is strong.

Even in the collective decision making process there is always the question of responsibility that one must carry on. When the decision maker is the board of the bank, the board as a whole stands behind the decision made. The same exists in question of the executive group or a collective process, that is, the group takes the responsibility of the decision made but the CEO or the president of the board is the one that publish the decisions done.

The network structure of independent co-operatives challenges the managers. Compared to IOFs managers they have to take into account a wider set of priorities in order to ensure the company's success (Mills 2008; Tuominen, Jussila & Rantanen

2010), which is why some academics argue that this makes management of co-operatives different from IOFs, but also more demanding (Tuominen, Jussila & Rantanen, 2010).

Recent research (e.g., Tuominen, Jussila, & Rantanen, 2010) does, however, suggest that crucial co-operative management skills relate to collective and participative decision-making. In this paper, we will fill the gap by investigating leadership of co-operatives from shared leadership perspective. Our research material consists of texts produced in thematic interviews with top managers and managing directors in OP-Pohjola Banking Group. We analyse the managers' accounts to identify discourses and their connections (Alvesson & Kärreman, 2000). The outcome of this process is the identification of two contexts of shared leadership: 1) leadership in member community and 2) leadership in alliance constellation, which require different competences.

## LEADERSHIP IN MEMBER COMMUNITY

According to our data there are three characteristics why shared leadership do exist in the Finnish co-operative banks: democratic decision making process –tradition, independency in the network structure and small size of units which we here demonstrate.

## DEMOCRATIC DECISION MAKING PROCESS

In shared leadership both knowledge and lack thereof is shared (Ropo, Lehtimäki, Eriksson, 2005), and the tacit knowledge has also been admired (Nonaka & Takeuchi 1995, 55-59). In the Finnish co-operative banks leadership and decision-making seems to be a collective process (Tuominen, Jussila, Rantanen, 2010; Hardy, Lawrence and Grant, 2005) where not only the CEO possesses the leadership capabilities, but also other members in executive groups and the quiet members in the organizations that assumed the role of specialists (Cox, Pearce & Perry, 2003; Sydänmaanlakka 2003).

Also shared leadership seems to be the way to realise leadership in the OP-Pohjola Group's member communities, it appears through whole our data where the interviewees mainly use the expression "we" in discussions of leadership and management. The member communities use a lot of energy to make proper, long-standing and well prepared decisions. Shared leadership process seems to be a way to make decisions, and is also a guarantee of well-considered decisions, as one of our interview-

ees stated when comparing decision-making in a co-operative and an IOF:

*"... we have been used to, as you know, we have never had need to make a decision just now or tomorrow, but we reflect, get to the bottom of the problem in question and prepare...and negotiate, yes, and when it is done, then we do the decisions, and then we do as decided, when there in IOFs, at that point, if I satirise a bit, so they do fast decisions when we here on the other side are first thinking, and when our decision is done, they have already cancel out the decision they first did and done a new one...."*

To operate in a co-operative decision-making reflective and negotiating democratic way demands special skills of managers: one has to have the ability to share knowledge and information (Sydänmaanlakka 2003), to co-operate and to trust the experts of the member community and often, also be in direct contact with the customers locally and regionally.

Still, outwards to the public the shared leadership concept is invisible. In regulations of co-operatives the duty of the CEOs is to represent the co-operative organization in public. This gives an impression to the public that the top managers lead and make all decisions (Davis 2001), because one is not able to see the underlying shared organizational leadership behind.

## INDEPENDENCY IN THE NETWORK STRUCTURE

The member communities, the independent banks in OP-Pohjola Group make their own decisions according to the nation-wide guidelines given by OPK. As put forward in our data:

*"we have been used to it, that if there is a nation-wide guideline, so we don't necessarily read it nitpicking accurately but we can think about it if we can find even a better local version that would be better than the original one"*

*"...we must live in time in our own territory and try to see forward and notice the possibilities at once... maybe it explains our course of action, that we want to see forwards, not just three months but 25 years..."*

The independent member banks in the Op-Pohjola Group build a network as a group-level phenomenon (Pearce & Conger, 2003b; Senge 1990),

where member banks interactive influence process among individuals in banks to the achievement of the Op-Pohjola groups and member banks goals.

### SMALL UNITS AS TEAMS

It seems that shared leadership is a natural and well-assimilated way of leadership in member communities of the Finnish co-operative banks. Banks as expert organizations have a long history of sharing leadership to find out the best practices to produce welfare to their customers. Notable that in the small or medium-size member communities shared leadership is even stronger and deeper-rooted than in larger units. This may be explained both with a team view and the size of a member unit. That is, upon consulting the academic literature on shared leadership and teams the Finnish co-operative banks can in fact be said to function as teams as defined by Kozlowski & Bell (2003). According to them, teams are collectives which (a) exist to perform organizationally relevant tasks, (b) share one or more common goals, (c) interact socially, (d) exhibit task interdependencies (i.e. work flow, goals, outcomes), (e) maintain and manage boundaries, and (f) are embedded in an organizational context that sets boundaries, constrains the team, and influences exchanges with other units in the broader entity (Kozlowski & Bell 2003, p 334; Vandewaerde, Voordeckers, Lambrechts & Bammens 2011).

In the OP-Pohjola Group the co-operative member banks are rather small of size. The organization structure in the member banks is low and light and makes co-operative leadership, as we define it, possible. Small size is a benefit: decision-making is rapid and flexible, locally and regionally active organization can better calculate the existing risks, as one of our interviewees put it:

*“...It is richness, so big resource to the Group that there are member banks of different sizes who know their territory and people there...”*

Still the co-operative leadership has its pitfalls (Doyle & Smith 2001): the emphasis on process may lead to lack of attention to the quality of product or outcome providing an alibi for laziness and incompetence when little is achieved. Co-operative leadership may mean that the excellence or flair of the individual is not rewarded and may cause unfair and demotivation and the organization may lose out as a result. Doyke and Smith (2001) points out, that the commitments, understandings and practices of shared leadership are sophisticated, “ideal model” and can easily mutate.

### LEADERSHIP IN ALLIANCE CONSTELLATION

Pearce and Conger (2003b) explain shared leadership “a dynamic, interactive influence process among individuals in groups for which the objective is to lead one another to the achievement of group or organization goals or both.

As a group, the OP-Pohjola is made up of 210 independent, local member co-operative banks, and a central co-operative OPK. Relationships between the independent banks and OPK are similar to a partnership. Obviously leadership in an alliance constellation has different challenges than in co-operative member banks. Rate of technology change may produce disruptive technologies that presume expensive expertise. Thus, improvements in technology make flattening of hierarchies even in an alliance constellation possible but also enable more fluid and complex lines of authority and organization structure and erosion of positional authority. In an alliance constellation context one must take into account globalization, competition and also threats to environment and security. Here comes up the benefits of shared leadership: in an expert organization such as an alliance constellation is, a group or team of experts the mutual influence among team members is prominent to create products and services the whole banking group needs.

According to our data it seems that the main reason to the existence of shared leadership in the alliance constellation of the OP-Pohjola Group is the network structure of the Group. As of our interviewees describes the OP-Pohjola Group as a phenomenon:

*“...this group dynamics what we have...our procedure is as an amoeba that just searches conclusions over the boarders...”*

The network structure of the OP-Pohjola Group is a challenge to the leadership of the alliance constellation. According to our data there are two different opinions of what the leadership in an alliance constellation should be: shared leadership and traditional leadership. Shared leadership in what we call the co-operative one, performed with honest trust, respect and appreciation of member communities as well as alliance constellation and co-operation itself. Typical to these interviewees is a long career in the case co-operative group, and they a strong vision of what a co-operative is and why it exists. This group of interviewees is used to share leadership, negotiate and make decisions in a participative, collective way. According to Bircham and Simmons (2004) shared goals and values are mat-

ters connecting and motivating people to participate in co-operation. Obviously the co-operative goals and values are deeply assimilated, and to this group of interviewees shared leadership is a self-evident way to operate.

There is, to some extent, a minority of the interviewees who vote for traditional leadership. Typically they have mainly a short career in a co-operative group or a background in an IOF. Their understanding of co-operative values is different. They think a co-operative should be more like an IOF and behave like an IOF does. To some extent they hope to have a lead to member banks' decision-making processes and management better than today. The hope of structural development, to establish mergers among member banks to build bigger units motivated by "customer needs", but argued, that the less independent units there are, the easier it is to commit the managers of the co-operative units to the visions of the central unit. Because of the measure of member communities and their independence, it is not easy to lead or set guidelines for the whole group. This may frustrate people that are not used to sharing leadership but rather to giving direct orders. Still, they praise the co-operative way; as one of our interviewee with an IOF background stated:

"...I don't envy the leaders in OPK, they have to tightrope with this – persuasion organization – I couldn't stand that. But anyway, it has followed, there are some strengths then, when decisions are done, they go further like a train... that commits very strongly, it is like a Swedish way to lead...enough discussion and then they do it".

To operate in a network in different organization contexts requires different elements of competence in shared leadership than it does in member communities. According to our data, the shared leadership in alliance constellation differs from that in member banks, where independent decision making in rather small units is regionally and locally bounded with flavour of constant debate with customers. In alliance constellation one must lead different expert units in order to create services and products to member banks with a strong vision of the customers' needs nation-wide without a direct contact to the customers and also, negotiate in partnership-like relations with the member banks to find a consensus. According to this, shared leadership in the alliance constellation units presumes strong visions and negotiating skills. A mix of knowledge, attitudes and skills acquired through

practice and personal experiences are needed, by which our study supports the findings of Tuominen, Jussila, Rantanen (2010). According to our data, in alliance constellation attitudes have great consequences to the leadership, even more important than leadership skills. The top managers' attitudes and the understanding of a co-operative movement is the key element to fulfil the co-operative mission of the group.

## SUMMARY

The most important notion concerning the aims of this paper is first, that in the Finnish co-operative banks shared leadership do exists, and second, it exists in two contexts: in member communities and in alliance constellation network. Both have a common denominator, collective and participative decision-making. The existing shared leadership phenomenon in member banks can be explained through democratic decision-making processes, independency in the network structure, low organization structure and small size of member units and in the alliance constellation through group-level network structure.

Shared leadership is a key element of leadership in a very democratic, collective-oriented and shared decision-making style in co-operative member banks which operate as independent teams in a network of the OP-Pohjola Group. Co-operative leadership seems to be a deeply rooted, traditional way to make decisions in the member banks of the OP-Pohjola Group.

Shared leadership in alliance constellation networks is different: local, regional co-operatives are expert organizations near customers and owners, and the co-operative way to operate is very strong. Alliance constellation co-operative units therefore work for the member banks but there is no contact to the actual customers of the banking group.

## DISCUSSION AND CONCLUSIONS

When we introduced the novelty of our research, we pointed out that the previous research has not investigated shared leadership in co-operative organizations. What we here do is to extend knowledge in this area. According to our study the following conclusions can be made: as a course of leadership action in the Finnish co-operative banking group two different contexts of shared leadership exists: shared leadership in member communities and shared leadership in alliance constellation. Com-

mon denominators are collective and participative decision-making. The existing shared leadership phenomenon in member banks can be explained through democratic decision-making processes, independency in the network structure, low organization structure and small size of member units and in the alliance constellation through group-level network structure.

Our study also supports the findings of Tuominen, Jussila, Rantanen (2010): managerial competence in consumer co-operatives is perceived as a mix of knowledge, attitudes and skills acquired through practice and personal experience. According to our study, the leadership in co-operatives is not a one man show – ability to share, to co-operate and to trust the experts in a member community are characteristics needed in leadership of co-operative organizations.

Thus, according to our data every one of these definitions partly describes the leadership process in co-operative banks in Finland, but none exhaustive. Obviously, the co-operative Finnish banks operate like teams or groups which they are not. Instead, they are locally and regionally bounded expert organizations where expertise is collectively shared; knowledge management plays a significant role. In these member banks there is a very low and light organizational structure where the common denominator is the co-operative mission: the work for the customers and owner-members welfare. The goals are shared and the organizations interact socially, the decision making process is conversational and democratic but the responsibility is only partly shared and collective. In co-operative Finnish banks there is always the managing director that, according to the regulations concerning co-operatives, is in charge. We hereby rename the shared leadership in co-operative banks to **co-operative leadership** and define it as interactive and social influence process where individuals in locally and regionally bounded expert organizations exist to perform co-operatively relevant tasks, share one or more goals, sets, maintains and manages boundaries and share the responsibility according organizational regulations.

We maintain that shared leadership is a challenge to managerial competence in co-operative organizations. Not only the knowledge and skills are needed, the adequate co-operative competence bases on co-operative attitudes are also necessary. Therefore we suggest that it may be safe to recruit co-operative managers within the movement to secure the co-operative competence and attitudes. For the newcomers to the co-operative group there

should be an orientation course of co-operation both in knowledge and attitudes as long as business schools can produce education that encompass all business forms including co-operative business.

The typical business school education today is mostly based on traditional business and managerial forms. Our research speaks of the importance of shared leadership in co-operatives, both in member communities and in alliance constellation networks. We also maintain that shared leadership is a challenge to managerial competence in co-operative organizations, where the necessary skills are the ability to share leadership, knowledge and information, trust in the co-operative organization as a whole and respect for all units. Not only the knowledge and skills are needed, the adequate co-operative competence bases on co-operative attitudes are also necessary. Therefore we suggest that it may be safe to recruit co-operative managers within the movement to secure the co-operative competence and attitudes. For the newcomers to the co-operative group there should be an orientation course of co-operation both in knowledge and attitudes.

The leadership education should be developed in a way that will make the education, both in knowledge and attitudes, an important source of managerial competence also in co-operatives. We suggest that business education should encompass all business forms from traditional business and management forms to co-operative business and shared leadership.

It should be acknowledged that this paper is the first attempt to uncover the dimensions of shared leadership in customer-owned co-operatives, precisely in the Finnish co-operative banks so it is likely that further research will identify additional elements that our data was not explicit or specific about. A deeper analysis of this issue would benefit the creation of new knowledge in the area of leadership in co-operatives. However, a comparison should also be made between the different types of co-operatives and co-operatives with different structures. Overall, we hope that the co-operative leadership develops into its own identifiable discipline. Nevertheless, we believe that interaction with the mainstream will continue to be useful. We hope that our work raises discussion and that a lot of research on the topic will follow.

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# CO-OPERATIVE NETWORKS AS A SOURCE OF ORGANIZATIONAL INNOVATION

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## INTRODUCTION

Innovation can be related to products, processes, or organizations (Boer and During, 2001). Although all three types are interrelated, organizational ability to learn and adapt to a changing environment is at the heart of discussions about viable systems in general, and organizations in particular. Organizational innovation refers to the creation or adoption of an idea or behaviour new to the organization (Lam 2004). One strand of literature deals with *organizational innovation as a structural issue*, and explores particular organizational structures that are more likely to result in product or process innovations. The other two strands of literature look at *organizational cognitive processes and learning capacity* (i.e. how organizations develop new ideas for problem solving); and *organizational change, adaptation, and the process of creation of new organizational forms* (Lam 2004). We focus on the latter two understandings of organizational innovation to make the point, based on the two case studies of innovative co-operative organizations, that co-operative networks are complex organizational forms that emerge as a response to the external environment, but also influence and shape it. Moreover, co-ops lead the process of complex (multi-organizational) network formation, since they are driven by their problem-solving nature and a common purpose of the members. In particular, as our cases illustrate, they are the leaders in creating new organizational forms when motivated by the provision of public goods, placing the co-operative model at the forefront of social innovation and entrepreneurship.

The paper is organized as follows. Social network theory and its application to co-operatives is described in the next section, followed by a dis-

cussion about co-operative network creation and supporting institutions. We outline the typology of co-operative networks, and describe complex, multi-stakeholder networks in the context of complex adaptive systems as the source of innovative ideas and organizational forms. Making the case that co-operative networks are the architects of organizational innovations, we end with two case studies of innovative co-operatives, and offer some concluding remarks.

## SOCIAL NETWORK THEORY AND CO-OPERATIVES

### MARKETS, HIERARCHIES AND NETWORKS

Adaptation to a changing environment is the central challenge for organizations (Williamson 1991). Adaptive capacity can be located in the market, where price signals are understood to serve the (anonymous) coordination purpose, or in the internal organization, where coordination among actors is deliberate, and often hierarchical<sup>1</sup>. Williamson considers networks to belong to a third, 'hybrid'<sup>2</sup> form of organization, and finds them particularly effective under conditions where firm reputation matters. While Williamson acknowledges that networks may be an effective mechanism for cost reduction under some circumstances, he argues they are less effective under increased uncertainty because transaction costs increase as consensus decision-making can be time consuming. This is also true when confidentiality is an issue, especially in presence of strategic technological innovation. But

<sup>1</sup> See the transactions costs literature, lead by Williamson 1975.

<sup>2</sup> Eccles 1981 uses the term 'quasi-firms'

Williamson's concern with what he perceives as a potential of networks to create higher transaction costs warrants further scrutiny.

The transactions costs approach is based on the premise that networking is driven by the individual agent's quest of cost reduction. Jones, Hesterly & Borgatti 1997 augment the transactions costs analysis by incorporating social network<sup>3</sup> theory to describe 'how social mechanisms influence the costs of transacting exchanges' (p 913). They identify conditions for network governance and explore why networks, rather than markets or hierarchies, are employed, and conclude that the presence of social mechanisms enables network creation and adaptation in the rapidly changing market environment.

Following Jones et al, Bijman 2005 makes a case for co-operative firms as hybrid governance structures that depend upon three organizational mechanisms – norms, price and authority – in their decision making. The price mechanism is used by agricultural co-operatives in transactions between members and the co-operative firm; authority (hierarchy) is applied as the control mechanism in the relationship between member-owners (represented by the board of directors) and management; and social norms (or network mechanism) are used in inter-member relations<sup>4</sup>.

The balance between the use of different mechanisms – market, hierarchy, and networking – shifts with the changing environment, resulting in organizational change that can strengthen or weaken the (social) character of co-operative organizations<sup>5</sup>.

## CO-OPERATIVE NETWORKS AND COMPLEXITY

Co-operation among co-operatives<sup>6</sup> is a consideration for all co-operative organizations. While worker co-operative networks of the industrial cluster type are relatively rare (Halary 2006, Smith 2001, 2004a,b), worker co-operatives as well as other co-operative types form federations to perform a number of functions. Co-ops are often connected in sector networks – e.g. federations of worker co-ops, agricultural co-ops, consumer and financial co-ops – or in regional support and co-op development networks – e.g. leagues or councils.

Federations are a hybrid form of governance of economic activity that can be stronger than alliances and joint ventures, and range from loosely linked confederations to well integrated socio-economic systems (Johnstad 1997; Byrnes, Holm & Matthews 2011). Federations can secure scale economies and ensure cost reduction for their members, but more importantly they provide essential types of services to their member-co-operatives, including research and development support, social benefits, and political voice among others (see Smith 2001). The purpose and advantage of networking among Italian co-operatives, for example, has been to achieve economies of scale and scope, marketing by common branding, and adaptability to a changing environment (Menzani and Zamagni 2010).

It is often stressed that the co-operative form of organization is a 'natural' fit for network governance because of its social component (associational character), its democratic decision making, and the co-operative identity<sup>7</sup> (Halary 2006, Simmons and Birchall 2008, for example). Often, however, low co-operative density stands in a way of applying the principle of co-operation among co-operatives to their advantage – there are simply not enough co-operatives in the particular industry or region to form co-operative chains. When a larger group of co-operatives are present in a region, a number of positive network externalities emerge. These include access to particular management skills, social networking and learning, social capital, access to finance, supply chain linkages, and others (Halary 2006, Smith 2004). There is also the ability to share knowledge with like-minded organizations and compete against (potentially more capitalized) investor-owned firms (Novkovic 2007). In cases where there are supporting institutions/networks, such as federations or leagues, the ad-

<sup>3</sup> Generally speaking, networks are referred to in the literature either as inter-organizational linkages, or as mechanism of support to entrepreneurs in which case they refer to personal social networks. We consider networks among organizations, but often these imply personal connections as well.

<sup>4</sup> Jones et al 1997 discuss four social mechanisms: the macroculture of organizations; restricted access to the network; social sanctions; and reputation. All four of these mechanisms apply to co-operatives (Bijman 2005)

<sup>5</sup> When the balance shifts in favour of market mechanisms or hierarchy, it is described in the co-op literature as the lack of member-engagement, 'identity crisis' of co-operatives (Cote 2001), or the degeneration of co-operatives that may end in demutualization in extreme cases (Cook, 1994).

<sup>6</sup> Co-operative identity statement, ICA 1995 the Sixth Principle of Co-operation.

<sup>7</sup> Ibid.

vantages of network externalities are particularly accessible. For Italian co-operatives, and, one may argue, co-operatives in general, networks are a way of doing business (Menzani & Zamagni 2010); therefore co-operative networking is 'thicker' and far more strategic (with alliances formed through the leagues/federations and with diverse co-operatives) than in capitalist businesses.

While the transactions costs literature concentrates on the formation of networks as a cost-reducing mechanism for an individual organization, network externalities and complementarities among co-operatives may produce benefits beyond individual organizations as well (Smith 2004a, p 186), with the co-operative model serving as a mechanism for social coordination.

We identify five types of co-operative networks:

1. Co-operatives themselves can be viewed as networks of independent producers/members (e.g. agriculture; crafts; artists)
2. Independent co-operative firms form inter-organizational networks for particular purpose (e.g. second-tier co-operatives; co-operative federations)
3. Co-operatives form supply chain networks with other co-operatives (example fair trade chains)
4. Co-ops take membership in professional (or co-op development) networks/associations to provide them with particular member services (e.g. sectoral federations or regional associations/councils)
5. Co-ops form networks with other co-ops, individuals, businesses or government agencies for a particular purpose, often outside of their core business. We call these *complex networks* to indicate their multi-stakeholder character. Often, these complex networks are formed to provide a public good – e.g. education, R&D, healthcare or social care.

The focus of our paper is on the fifth form - complex networks- since they produce unexpected linkages between various agents and are likely to result in innovative organizational forms. They also lend themselves to the complex adaptive systems approach to organizations (see Soots et al 2007, for example).

Co-operative networks share common characteristics with complex organizations (Cillier, 2005).

They are both *based on relationships and interactions* among the members and they are *open systems* that interact with other organizations and with their environment, and therefore shape and are shaped by them. Co-operative networks abide by the principle of open membership, leaving the boundaries of the organization open to external influence and re-examination of its purpose and functioning. *Unpredictable (emergent) behaviours and outcomes are possible* in co-operative networks since co-operatives are run democratically. *Nonlinearity* of interactions manifested by the 'whole being greater than the sum of its parts' is present in co-operative networks, and there is also *context and path dependency*: local and/or internal solutions and social innovations dominate in successful co-operatives. Finally, both systems are *decentralized*; they *self-organize* and respond to a perceived need<sup>8</sup>.

## NETWORKS AND INNOVATION

As argued above, creation of independent umbrella networks may provide needed institutional support to not only assist co-operative development, survival and growth of the sector, but also to provide a platform for innovation in finance, marketing and other areas of co-operative economic and social activity. Smith's proposal rests on evidence of network externalities in both Mondragon Co-operative Corporation (MCC) and La Lega co-operative networks. Among other areas<sup>9</sup>, the author discusses joint ventures and strategic alliances of the co-operative network (with other types of businesses and with government) as one of the innovative functions for the umbrella organizations. This same function is viewed by Soots, Perry & Cowan (2007) in the framework of complex adaptive networks applied to the case of the Nova Scotia Co-operative Council (NSCC). Soots et al describe the activities of the NSCC as the hub which is building and facilitating linkages among various support groups in the network.

Industrial networks are sources of innovation and an advantage under global competition. Halary (2006) identifies worker co-operative networks exhibiting network externalities in Italy, Spain (Smith 2004b) and France. Because the co-

<sup>8</sup> Member needs in case of co-operatives.

<sup>9</sup> The functions of the umbrella organization (federation or league) examined in Smith 2004b are to support entry, reduce exit, sustain democratic ownership and control, solve organizational problems, explore joint ventures and strategic alliances, innovation and technology transfer, finance, mitigate risk, employment policies.

op business model contains the elements of social interactions required for effective inter-organizational linkages - from trust and reciprocity to durable relationships and social cohesion - Halary argues that co-operative business forms have a strong advantage over their capitalist cousins in network creation and, thereby, social coordination.

Looking at the probability of adaptation of new technology through a network or inter-related firms, Taylor & Levitt <sup>10</sup>(2005) find some common threads that make these adaptations more likely. Beneficial qualities of adaptive networks are relational stability embodied in long-term relationships among firms (that are not based on choosing the lowest price offer); mutual interest (rather than their own self-interest); flexible boundaries and roles, instead of rigid division of tasks; and presence of an agent for change at the network level.

Taylor & Levitt's findings apply to co-operative networks (Smith 2004a,b) in general, since their relationships are long term; their purpose is common gain (solidarity is a shared value, often explicit in co-op relations); their boundaries are flexible and likely to be present where solidarity is entrenched among co-ops in a network; and agents for change are often embodied in co-op leagues, federations or councils (Smith 2004a). On the last point, private sector firms cannot easily access strategic collaboration, either because as competitors they don't readily perceive the benefits or, when they do, the process of pursuing those benefits attracts the interests of combines regulators. Co-operatives have an advantage, as it is natural for them to discuss how they can work together to reduce costs, access new technology or increase market share, (Menzani & Zamagni 2010).

But what is it about networking that prompts innovative organizational forms? And what drives co-operatives to seek partnerships with others, including non-co-operative organizations? While transaction costs may be one type of incentive, we look at co-operatives as "collective problem solvers" (Borzaga 2011), rather than profit maximizers. While financial viability is necessary, it is not co-operatives' *raison d'être*.

## CO-OPS AND INNOVATIVE NETWORK CREATION

### COMPLEX CO-OPERATIVE NETWORKS, INNOVATION AND ENTREPRENEURSHIP

Besides other factors, the building of networks requires 'champions' who lead the effort of network building. The elements of success of the Nova Scotia's co-op development system featured in Soots et al 2007 are the combination of institutional support, social entrepreneurship and vision, and strategic partnerships. But how are the partnerships formed, and what is the driving force behind them? We conjecture that common purpose drives co-operative entrepreneurs to seek partnerships to find solutions to a particular problem. We also infer that complex (multi-stakeholder) co-operative networks are the breeding ground for innovative organizational forms, judged by the prerequisites for successful adaptive organizations (Lam 2004, Bijman 2005, Halary 2006, Taylor&Levitt 2005).

Complex co-operative networks can then be examined in the framework of complex adaptive systems. Social and business network theories increasingly draw on the theory of complex biological systems and self-organizing systems, indicating the need for adaptive, learning organizations which are decentralized, rather than hierarchical.

### CAS MANAGEMENT AND THE CO-OPERATIVE ADVANTAGE

Some success stories of companies that created an adaptive self-regulated business environment have emerged, such as Brazil's Semco, or Suma in the UK, among others. These democratic organizations thrive on the understanding that people in organizations are the most effective problem-solvers in dynamic environments. To be effective, they require knowledge and freedom to act<sup>11</sup>, rather than hierarchical structures that are slow to respond to frequent changes.

These successes underline the basic premise of complex adaptive systems (CAS) that the 'whole is larger than the sum of its parts' (McMillan 2005). As noted previously, CAS share some common characteristics: they require diversity to be able to create new ideas; they are a system of interconnected independent agents; they possess adaptive capacity and ability to learn; decision-making is decentralized; relations between individuals are

<sup>10</sup> Taylor and Levitt 2005 draw their findings from the construction business. We believe their conclusions are relevant for other industries, but this warrants further research.

<sup>11</sup> Stocki, Prokopowicz and Zmuda 2010 talk about Total participation, and identify need for total participation management (TPM). Also see Hough and Novkovic (2011)

more important than the individuals themselves (e.g. sports teams); they are non-linear, and path dependent (Zimmerman, Lindberg & Plsek 1998). It is therefore important, in managing CAS, to provide an enabling environment in the form of communications learning and clear goals, rather than top down decisions (Espinosa, Harnden & Walker 2007).

The innovative governance practices arising from complex adaptive networks are credited with the success of California's water planning and management process (CALFED), for example. The group introduced collaborative heuristics amongst multi-stakeholders, including a nonlinear planning method, to produce a self-organizing systems behaviour and adaptation for the real-time environmental use of water while protecting a reliable supply for agriculture and urban interests (Booher and Innes, 2010).

We conjecture that co-operatives have the potential to effectively apply CAS management because of their democratic and participatory nature. This is particularly so when communication and understanding of the purpose of the co-operative is shared by the members. Complex systems require independence of individual agents and the formation of new organizational arrangements at a different level to manage the complex interactions (Espinosa et.al 2007). The requisite participatory, democratic management of such complex systems is the *modus operandi* of co-operative organizations.

Looking at complex network creation from the business purpose perspective, a clear focused vision of the *purpose* of the enterprise is key to driving the agenda. The initial drivers may be individuals, but in the co-operative network context, the sooner they become groups of people and institutions, the more powerful the results. (See McMillan 2005 for a case of the Open University in the UK). Why is the purpose a critical component? Having a clear vision of a purpose driven by member-needs allows the actors to define their 'fit' differently and pursue the goal more effectively<sup>12</sup>. The basis of co-operation (with government, private business, other co-ops) becomes a *shared values-based platform*, rather than one guided by profit (see Bennet & Bennet n/d, for example). Co-ops are leaders in complex network creation i.e. social coordination,

particularly in the case of public goods (the 'commons'), because of their comparative advantage as values-based businesses.

Our examples below draw on two such cases – one from the education sector and one from the healthcare field. The healthcare case is a complex network centered on a 'league' (NS Co-op Council) in its initial stages; the education example is driven by a co-op, but one that is also an umbrella organization.

## CASE STUDIES

### CASE 1. CO-OPERATIVE MANAGEMENT EDUCATION CO-OPERATIVE (CMEC)

The Co-operative Management Education Co-operative (CMEC) is a co-operative formed to support the educational development of future co-operative leaders.<sup>13</sup>

Central to co-operation, "education, training and information" is the fifth co-operative principle (ICA 1995). Co-operatives continually invest in the education of their members, but fulfilling the need for business management training that reflects the unique character of the co-operative model is needed if co-ops are to reach their full potential as powerful contributors to the economies of their communities. CMEC was created in 2000 by a forward-looking group of co-operators and academics for a clear purpose: to provide management education based on the values and principles of co-operation. Championed by Tom Webb<sup>14</sup> who recognized a need for management training specific to co-operatives, and supported by Sidney Pobihuschy (Co-op Atlantic) and Dennis Deters (The Co-operators Insurance), the idea of a graduate program in co-operative management was born and put to action. Coming together as co-operatives to fulfil their social mandate, CMEC's members (fifty five co-operatives and credit unions, co-op associations, educational institutions and individuals) formed a complex network to deliver a specific public good: co-op management education based on ethical principles.

<sup>12</sup> The Darwinian 'survival of the fittest' often translates to 'most profitable' in economics literature. Co-operatives often operate in hostile / non-supportive environments, and need a different measure of fitness. This will depend on their purpose and membership. Fitness can also be a 'moving target', i.e. changing over time – another feature of complex systems.

<sup>13</sup> CMEC  
<http://www.smu.ca/academic/sobey/mm/cmec.html>

<sup>14</sup> MMCCU designer and program's first manager.

Within a year, a masters-level degree program curriculum<sup>15</sup> was developed and approved by Saint Mary's University in Halifax and the Maritime Provinces' Higher Education Commission, and close to \$1 million was raised from member donations. Housed in the Sobey School of Business at Saint Mary's University the Master of Management-Co-operatives and Credit Unions program (MMCCU) accepted its first students in 2003.

Today, CMEC collaborates with members in six countries, has faculty in four, and students and graduates in seven. Co-op enterprises represented include food, agriculture, credit unions, and worker co-ops, as well as federations and associations. Additionally, CMEC has formed partnerships with eight educational institutions in six countries. CMEC is democratically governed and decision-making is decentralized. The network is dependent on the relationships and interactions between its members, who provide governance and financial support for the program development and refer students to the program.

## OBSERVATIONS

CMEC offers a good example of how, in a multi-stakeholder environment, a shared-values platform can create innovation. CMEC has produced a product – the MMCCU program – that links together different types of members in delivering and supporting a program that is unique in its offerings, structure and delivery.

Characteristics of a complex system are evident: CMEC network is built on relationships between various agents, it is decentralized and democratically governed, and it deepens relationships between co-operative managers in the network. Emergent behaviour and unplanned outcomes are also apparent. For many of the students, the experience has been – in their own words - life changing. Below are some comments from MMCCU graduates:<sup>16</sup>

*“When we went to Spain on the Study Visit, it was a life-changing event. I remember thinking, “What if we had this in the U.S.? What if we had this partnering and working together, this kind of concern for community, for helping other co-ops?” A lot of the content of the MMCCU program is not widely available here yet. To some extent, we are co-op management pioneers-helping to create and test the growing body of knowledge.”*

*“I will leave this program with a great feeling of hope for our future.”*

*“The trip to Mondragon alone was a pinnacle experience, a validation of my work and of the co-op model.”*

*“Orientation helped us form such great relationships... when we got online to read and respond to one another's postings, that's when the application occurs, that's the real learning opportunity.”*

*“The MMCCU program brings the fundamental co-operative elements to the forefront of your mind, on a day-to-day basis.”*

*“This program made me see the co-operative model as a method of sustainable development that is clearly attainable.”*

The program has turned into career changing experience for faculty and staff as well. While the MMCCU degree was not necessarily structured as a research program, it has drawn a number of graduate students who excel in research and produce academic publications.

Saint Mary's University is a member of the CMEC co-operative; an unusual institutional arrangement that resulted in positive feedback from the business school accreditation body- also an unexpected outcome.

New networks have been created that span co-op owners, institutional partners, faculty, students and alumni. From these networks, linkages have emerged, particularly among graduates who are in the process of creating an alumni association and participate in governance of CMEC. A research network and international centre to house CMEC, the research network, and other certificate programs for more targeted co-operative education, is in the process of development.

In just over a decade, CMEC has evolved from a loose network of interested co-operators to a successful example of a co-op network coming together to meet their educational needs and em-

<sup>15</sup> Comparable to a conventional Master of Business Administration program, the MMCCU program is unique in that it places traditional business knowledge and skills – e.g. accounting, finance, marketing, and people management – within the broader context of the co-operative model; fulfilling the requirements of a business school but guided by and responsive to co-operatives and their priorities.

<sup>16</sup> [http://www.smu.ca/academic/sobey/mm/about\\_student.html](http://www.smu.ca/academic/sobey/mm/about_student.html)

power the next generation of managers to advance the co-operative movement. CMEC is currently undergoing succession challenges that will require engagement from all stakeholders to create an enabling environment for further adaptation. A greater investment in a management structure and resources conducive to an adaptive system will likely be required.

## CASE 2. HEALTHCONNEX

Like CMEC, HealthConnex Health and Wellness Co-operative is a network of independent, interconnected agents (co-operatives, physicians, technology providers, medical staff) who have come together under co-op leadership to provide a public good, in this case health care services.

Owned and governed by 13 co-operatives and credit unions, HealthConnex provides a web-based health and wellness portal that allows Nova Scotians to build and access their own health records, record test results or consultations with medical care professionals, peruse an on-line library of trusted, hi-quality, doctor-reviewed medical information, use an interactive symptom checker to see if and when they need to consult a doctor, and obtain an emergency health card that will let health care professionals access their on-line medical history instantly. It also includes a “trackers” program that will help subscribers establish and track goals, and a “reminders” program that can be set up to trigger emails for anything from “time to renew your prescription” to “time for your next eye appointment”. Patients can also, through this portal, interact with their doctors (who they nominate to become part of the HealthConnex network) to renew prescriptions, book real and virtual appointments and request medical advice.

HealthConnex was born of the passion and commitment of two doctors studying inflammatory bowel disease at Dalhousie’s school of medicine. Because Dalhousie is the only IBD research hospital in the Maritimes, many patients travel long distances for diagnosis and treatment. Doctors David Zitner and John Ginn believed patients would have better health outcomes if they had better access to communities of interest and reliable medical information to proactively manage their illness. Working on it off the side of their desks for 6 months, they then approached Nova Scotia Co-operative Council with an idea to create a new health and wellness co-operative to, as Zitner puts it, “meet the needs of the community and give patients the care they deserve.”

According to NSCC CEO Dianne Kelderman, it then became a simple matter of “synchronicity and destiny.” Each year, NSCC’s Innovation Council asks its 402 co-operative and credit union members to propose innovative ideas worthy of growth and encouragement or commercialization. In 2007, HealthConnex was chosen that year’s \$1 million winner and NSCC was given the green light to move HealthConnex from research to implementation. Their target market is the 308,000 members of Nova Scotia’s provincial co-ops. Within 2 months of its February 2011 launch, HealthConnex had already enrolled over 500 Nova Scotians. Zitner estimates subscription to HealthConnex will cost patients approximately \$120 - \$150 a year for basic participation.

The HealthConnex Board is comprised of 7 directors: four represent the owners (13 founding co-operatives and credit unions), two seats are held by Praxis (representing the medical doctors), founder Dr. David Zitner is the seventh director. HealthConnex also works closely with the NS Department of Economic Development and interacts with other organizations within the co-operative sector.

Of the \$3 million start-up funding, approximately \$1.8 million came from the 13 co-operative and credit union members. Today, HealthConnex is 100 percent funded by member equity, and has roughly \$3 million in the bank.<sup>17</sup>

## OBSERVATIONS

HealthConnex offers a good example of how co-operation among co-operatives is more likely to create innovative solutions for their members. The need filled by HealthConnex was not met by the private and public sector. It wasn’t until it was championed by the co-operative sector itself that the parties critical to making it happen were brought together to look for solutions. It is also a good example of how, when the vision of the drivers of innovation – in this case the physicians involved, and NSCC CEO - is both clear and member-focused, complex networks are created. For Nova Scotia’s co-operatives and credit unions, moving into the health care field was something completely new. Based on Zitner’s common-sense vision to improve health outcomes for Nova Scotians, co-operative community values were mobilized to create buy-in to a new shared vision of community wellness.

<sup>17</sup> In 2010, HealthConnex raised close to half a million from 19 individuals who purchased shares under the province’s Equity Tax Credit program.

HealthConnex network is a non-hierarchical system that interacts with other organizations – doctors, health care providers, other co-operatives, NS Co-op Council and the general public. Decision-making is decentralized in the hands of clients and their doctors. The open and diverse, relationship-driven system ensures that the network is both responsive to community needs and well-positioned to meet those needs. The importance of the service provided by this complex network is undeniable. More importantly, in the Canadian context of public healthcare provision, and an aversion to its privatization, this not-for profit multi-stakeholder arrangement is a winning solution. Subscribing doctors believe HealthConnex will make their practice more efficient by reducing wait times, providing administrative benefits (on-line appointment booking and prescription refills) and improving access for sick patients. By reducing chronic, non-acute medical visits and improving overall patient health outcomes, HealthConnex can be expected to lower taxpayer expenditures for medical costs as well. There are also benefits for small businesses: with HealthConnex, much of the time taken by employees to attend doctors' offices for routine medical needs can be shortened to a simple phone call.

HealthConnex is a good example of how social mechanisms foster networks and adaptation in a rapidly changing market environment: through HealthConnex, local networks of health care practitioners will emerge to meet the needs of a more health conscious society. This will contribute positively not only to the personal health of residents but also to the economic health of the region.

HealthConnex, like other complex networks, has already produced unexpected linkages and interactions within the system's building blocks that have resulted in innovative but unplanned outcomes. For example, several Nova Scotia credit unions are interested in creating in-branch HealthConnex kiosks - staffed by employees - to help members for whom computer technology is a barrier, access its benefits. The credit unions are also discussing offering subsidized or free memberships to low income members. This represents a very important step for the credit unions. Fostering healthy communities has always been part of their mandate. Removing access barriers to Nova Scotia's new co-operative health and wellness network is a creative and innovative way of supporting community wellness.

Also unintended by the original proponents was the adaptability of this system to the needs of communities beyond Nova Scotia. Discussions with The Cooperators to tailor it for their member-

ship and expressions of interest from a US credit union evidence the resonance this approach has for communities outside of Nova Scotia. This creates "export" revenue for the co-op, supports jobs (design, software, sales) in Nova Scotia and creates the potential for scale efficiencies at a national and international level.

The creation of a new partnership with Nova Scotia's ministry of economic development was also unexpected. Traditionally, funding for such an initiative would have been from the Ministry of Health. The fact that the funding came from Nova Scotia's Department of Economic Development confirms the economic and entrepreneurial benefits created by this innovative approach to providing healthcare. Nova Scotia economic development officials saw HealthConnex as not only economically viable and replicable, but also exportable, with job creation benefits.

An important source of reputational currency and hard cash was created when – to solve problems of access and scale – HealthConnex purchased Beneworth, a management system serving 80 percent (1,800) of Nova Scotia physicians. Today, over \$200 million a year flows from provincial medical plans to doctor's offices through HealthConnex's Beneworth subsidiary. By acquiring Beneworth, HealthConnex turned the provinces' doctors into valued clients, amplifying network buy-in. By piggy backing onto existing medical billing systems, HealthConnex was able to upgrade and enhance services offered to doctors by including, for example, on-line prescription renewals, e-consults and web-booked appointments.

## SUMMARY AND CONCLUSIONS

In this paper we examined social network theory and its application to co-operatives as hybrid forms of business organizations that rely not only on market exchanges and hierarchy, but also - by their very nature as member associations - on social interactions. The paper examines various types of networks formed by co-operatives, and focuses on the complex form where co-operatives champion partnerships with diverse stakeholders. We conjecture that the driving force of such co-operative network creation is in the problem solving nature of co-operation, rather than cost minimization, particularly in the case of creation of public goods and/or positive externalities.

We highlighted the role of complex, multi-stakeholder co-operative networks as architects

of organizational innovation, making a case that social and organizational innovations through networking, either among co-operatives in a supply chain, or in a complex adaptive framework, are driven by the clear purpose of a co-operative (or a group of stakeholders). This type of collective entrepreneurship highlights the co-operative form of organization as a medium for social coordination through economic activity. Similar to recognition of opportunities in the entrepreneurial context, the clear purpose, or vision, of co-operatives to produce social benefit will drive the 'champions' to look for the right solutions to overcome all obstacles.

We consider co-operative networking to be the driver of organizational innovations, in that it may guide creation of strategic alliances and innovative institutions to support a particular purpose, or it may result in a complex organization. Co-operatives have an advantage in finding solutions through social networking with like-minded organizations sharing common values. Their role as leaders in the formation of complex networks is particularly evident in the provision of public goods, as evidenced by our two cases. CMEC and HealthConnex, two multi-stakeholder co-operative networks, are presented as examples of com-

plex adaptive systems that arose as a result of social entrepreneurship, driven by a common purpose of the agents in the network.

Both CMEC and HealthConnex were convened by co-operative entrepreneurs who shared a clear and member-focused vision with all stakeholders. In both cases, the result was the creation of an important public good – co-op management education and an innovative health and wellness network— to meet needs not addressed by other sectors in the economy. In both cases, the focus has been member benefits, rather than financial gains. And in both cases, had the co-operative sector not stepped in to build the networks, they would not exist today. Moreover, the co-operative model offers an innovative way to deal with the quasi-public ownership arrangement when member-control is vital but private ownership is not the best solution, such as the case of Canadian healthcare.

For both CMEC and HealthConnex, shared buy-in and democratic decision-making by the membership was critical to their success and expansion. The dynamic and autonomous linkages arising from co-operative networks have resulted in numerous unplanned actions that continue to influence and shape the outcomes of both networks in beneficial and resonant ways.

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# THE MEMBER VALUE AS AN EXPLANATORY MODEL FOR SUCCESS OF FINANCIAL CO-OPERATIVES – RESULTS OF AN EXPLORATIVE PRELIMINARY STUDY

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## INTRODUCTION

Considerable parts of banking institutions are currently dealing with strategic adjustment processes as a result of changing market conditions (RIECKE *et al.* (2010), p. 32). As objective of these processes, the corporate policy of those institutions has to secure long-term economic viability and competitiveness. To achieve those objectives, banking institutions have to assert competitive advantages to compete in the banking sector (KRING (2005), p. 26).

In case of the German co-operative banks, the governance structure of the Co-operative Financial Network allows its decentralised units to implement individual strategies as a result of their economic independency.<sup>2</sup> In this context, a diversity of strategic alignments of co-operative banks is observable in practical application.

Some of these alignments are related to membership, which is a core element of the co-operative governance. Because of membership as strategic vehicle, financial co-operatives are able to communicate and to reinforce elements of stable relations within this co-operative partnership, for example authenticity, trust or control (BVR (2010a)). In relation to the increased communication by national

and regional co-operative associations, the membership orientation is used as strategic alignment more often (MAUSBACH (2010), p. 49; BVR (2009), p. 5; BVR (2010a)).

Because of its strategic potential as a distinctive feature<sup>3</sup>, the orientation on membership has to be translated into contemporary strategies with specific and well-validated contents for each co-operative bank individually (TSCHÖPEL (2011b)). In this case, the MemberValue-strategy – as a consistent management approach for the membership-oriented strategy – could possibly be an adequate instrument.<sup>4</sup> It should be possible for co-operative banks to validate the effects and economic efficiency of such a MemberValue-strategy for their primary stakeholders, the co-operative members. It allows conformity with the primary co-operative objective and may help to increase co-operative efficiency and competitiveness as well as compatible incentives between members and their co-operative institution.

According to this practical and theoretical problem, the article should critically analyse in which way the MemberValue-strategy has to be adapted for practical application. Potential influence and success factors of the MemberValue-strategy should be clarified by an explanatory model. For this reason, an explorative preliminary study was realised.

The following article initiates with the methodology of the explorative study (chapter 2) and the conditions of the MemberValue-strategy, especially

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<sup>2</sup> For information about the Co-operative Financial Network-structure, see GREVE (2002).

<sup>3</sup> For this argumentation, see Tschöpel (2011b).

<sup>4</sup> The MemberValue-strategy was developed by THEURL (2002), see for example THEURL (2010), p. 71ff.; THEURL (2002), p. 84ff..

theoretical and legal fundamentals and reasons for a MemberValue-management (chapter 3). Afterwards, the explanatory model of the MemberValue and its impact factors will be presented in relation to hypotheses, which were extracted from the explorative study (chapter 4). The paper closes with a summary of implications (chapter 5).

## STUDY METHODOLOGY

The explanations of the methodology for the preliminary study set the basis to evaluate the qualitative survey. Explorative methods and instruments are used when dimensions of the phenomenon under study are not established (MAYER (2009), p. 36). In case of this study, the concrete instrument to ascertain the qualitative data is the expert interview (GLÄSER/LAUDEL (2009), p. 111), especially the semi-structured expert interview with an interview guide.

Preparing the preliminary study, the choice of experts was the first task. The concrete intention of the study, the conception of influence and success factors of the MemberValue, determined the choice of experts (MAYER (2009), p. 41). In this case, there are two groups of experts with specific

knowledge about the contents of the MemberValue-strategy. The first group contains the members of the directors' board as initiators and developers of individual MemberValue-strategies for financial co-operatives. The second group consists of co-operative members as functional group / multiple stakeholders, because of their status as service partners, owners and participants in decision-making processes (TSCHÖPEL (2011b)).

The taking of a representative sample was the next step while preparing the explorative study. Because of the extended population, the exploration of all components of the population was not feasible because of the costs and the time constraints involved. The population of 16.7 million members and 1.136 banks was first reduced by a limitation to all financial co-operatives being members of a regional auditing association (BVR (2010b), p. 2). This led to a sample of 207 co-operative banks and 2.7 million members. The remaining banks of the sample were classified in a 15-cell grid in relation to their size (balance sheet total) and extent of their catchment area (population).<sup>5</sup> In case of the preliminary study, one bank out of every cell was identified and contacted as possible participant in the explorative study (see figure 1).

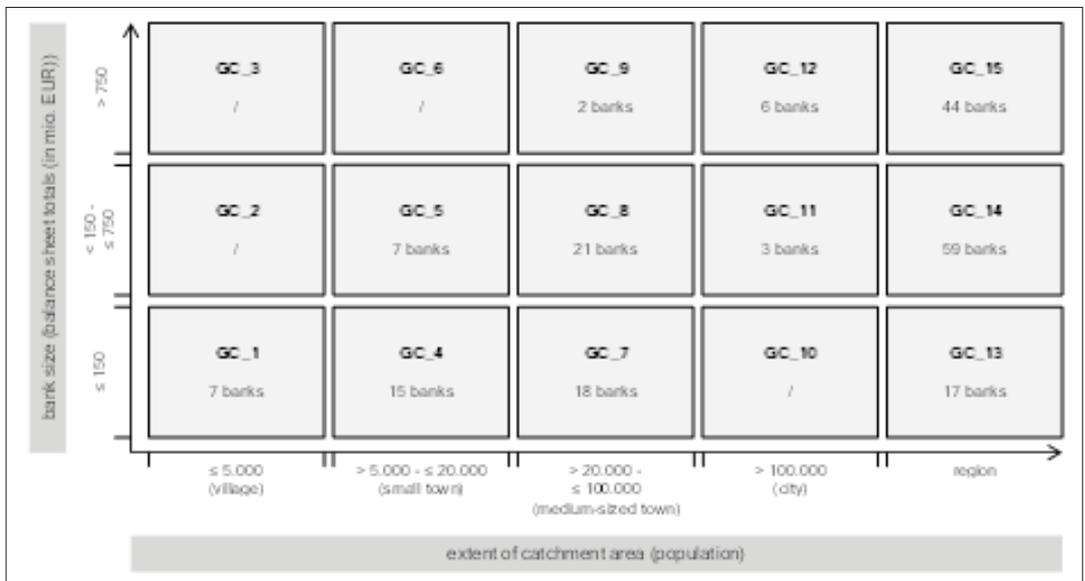


Figure 1 - Classification by size and extent of catchment area (n=199)<sup>6</sup>

<sup>5</sup> According to the model by BLOME-DREES/SCHMALE (2004), p. 47f.

<sup>6</sup> The final sample consists of 199 entities, because eight special institutions were taken out.

While developing the interview guide for the preliminary study, a preconception of the Member-Value was made. Considering the different knowledge of the two expert groups, two differentiable interview guides were developed. Afterwards, the guides were discussed with the supporting audit-

ing association and optimised concerning the layout and comprehensibility.

Altogether, 22 expert interviews – eleven interviews with members of the directors' board and eleven interviews with members of co-operatives – were executed during the preliminary study (see figure 2).

<b>cell</b>	<b>catchment area</b> (population)	<b>bank size</b> (mio. EUR)	<b>board member</b>	<b>member</b> (function)
GC_1	≤ 5.000	≤ 150	B_1	M_1 (member)
GC_4	> 5.000 – ≤ 20.000	≤ 150	B_2	M_2 (representative)
GC_5	> 5.000 – ≤ 20.000	> 150 – ≤ 750	B_3	M_3 (representative)
GC_7	> 20.000 – ≤ 100.000	≤ 150	B_4	M_4 (member)
GC_8	> 20.000 – ≤ 100.000	> 150 – ≤ 750	B_5	M_5 (representative)
GC_9	> 20.000 – ≤ 100.000	> 750	B_6	M_6 (representative)
GC_11	> 100.000	> 150 – ≤ 750	B_7	M_7 (supervisory b.)
GC_12	> 100.000	> 750	B_8	M_8 (supervisory b.)
GC_13	region	≤ 150	B_9	M_9 (supervisory b.)
GC_14	region	> 150 – ≤ 750	B_10	M_10 (member)
GC_15	region	> 750	B_11	M_11 (member)

**Figure 2** – Interview partner of the preliminary study

The study was anonymously evaluated with the primary intention to identify structural commonalities and key discussion points. Information of the expert interviews will be shown as individual citations for the purpose of illustration. The citations will be marked as following: member citations [M\_#] and directors' citations [B\_#] (see figure 2).

## CONDITIONS OF THE MEMBERVALUE-STRATEGY

Since the methodology of the study was already explained, the reason of the membership-orientation in financial co-operatives should be present in the following (chapter 3.1). Afterwards, the necessity of a MemberValue-Management (chapter 3.2) should be clarified on this basis. This should consequently motivate the need of an explanatory model of MemberValue-success for financial co-operatives.

## THEORETICAL AND LEGAL FUNDAMENTALS

The registered co-operatives represent a special form of co-operation between public or private companies and / or natural persons and allow a superior achievement of microeconomic objectives compared to an isolated approach because of their specific governance structure (Tschöpel (2011a), p. 6). Financial co-operatives ensure the economic support of their members and the way of mutualism<sup>7</sup> because of their collective business institution which is owned by their members, who are multiple co-operative stakeholders (Theurl (2005), p. 138).

Within the co-operative business model, financial co-operatives are able to create economic values, which would not exist without such a co-operative economy. These values are named as MemberValue and entitled to members as core co-operation partners. To increase those values, the activities of co-operative banks have to fulfil the economic needs and interests of their members, what implies the simultaneous optimisation of owner and customer values. Because of members' institutional function as service partners, owners and decision participants, the MemberValue expresses the total value of the entrepreneurial activity of co-operative banks and represents the

benefit of the financial co-operative for its members (Theurl (2002), p. 84f.). According to this argumentation, the MemberValue should be used as an appropriate management approach to support and ensure an effective membership-orientation in financial co-operative institutions.<sup>8</sup>

In opposite to its core purpose, the contents and terms of co-operative membership-orientation are not codified by the German co-operative law. This may lead to general interpretation and differentiation possibilities concerning the actual strategy of co-operative banks. In case of the German financial co-operatives, this differentiation leads to a lack of conformity concerning the membership's term and different approaches for membership-orientation in practical application.

**[B\_8]** *“The different individual strategies of financial co-operatives lead to a fundamental conflict within the Financial Service Network.<sup>9</sup> Can we satisfy the required values and demands of our members as a specific banking form? If not, we will be exposed as banking group, which not significantly differ from other banking institutions.”*

This statement of a co-operative member of a director's board indicates that membership as well as its corresponding elements of the business model may have a significant influence for the financial co-operatives competitive environment and their potential success.<sup>10</sup> This also indicates the necessity to evaluate success and influence factors – the required values – of the MemberValue-strategy.

## THE NECESSITY OF A MEMBERVALUE-MANAGEMENT

As indicate above, a strategic membership orientation may be a potential promising strategy for financial co-operatives, but has to be consequently implemented due to a MemberValue-strategy. This lead to the conclusion, that a MemberValue-strategy has to be permanently validated and shall be implemented in an adequate MemberValue-management system. Due to the explorative pro-

<sup>8</sup> In case of the German financial co-operatives, membership-orientation is a codified principle in co-operative law and core purpose of co-operatives.

<sup>9</sup> In this case, the perspective of the financial service network should be summarising the totality one-tier-banks in the German co-operative banking system.

<sup>10</sup> Tschöpel (2011b) discusses the theoretical basis of membership-orientation as a strategic alignment for financial co-operatives.

<sup>7</sup> As form of acting in the interests of members and with them, see Di Salvo (2011).

liminary study, the management of the current and individual membership orientation was discussed. It was shown, that the management was organised differently in case of the participating co-operative banks in two ways:

- 1) Several differentiable approaches for membership orientations in practical application are considerable. Depending on the orientations on the German co-operative core purpose of co-operative law – mutualism or the economic support of members – and the identity of member’s and customer’s<sup>11</sup> services and conditions, there are differentiable interpretation levels for membership-orientation in the German financial co-operative sector (see figure 3).
- 2) Some banks implemented integrated management approaches while some banks planned isolated membership activities out of a latent membership orientation without recourse to a strategic process.

**[B\_3]** *“We made an inventory: What are we doing today for our members? We asked ourselves, how we could achieve a broader member basis. [...] For this reason, a lot of isolated activities and their communication to our members were necessary. [...] That means that several isolated activities characterise our membership orientation, today.”*

The planning and implementation of membership activities is forced by the directors’ boards of financial co-operatives with significantly less participation of members.<sup>13</sup> In a few cases, members are involved in those processes because of the participation in specific advisory boards or project groups.

At this point, an efficient and adequate MemberValue-management may be a critical factor for the financial co-operatives’ membership-orientation. The MemberValue-management has to basically identify the preferences and interests of members and has to derivate recommendations for specific management activities. This continuing process has to be accompanied by controlling activities to ensure the effect of such activities and their economic profitability.

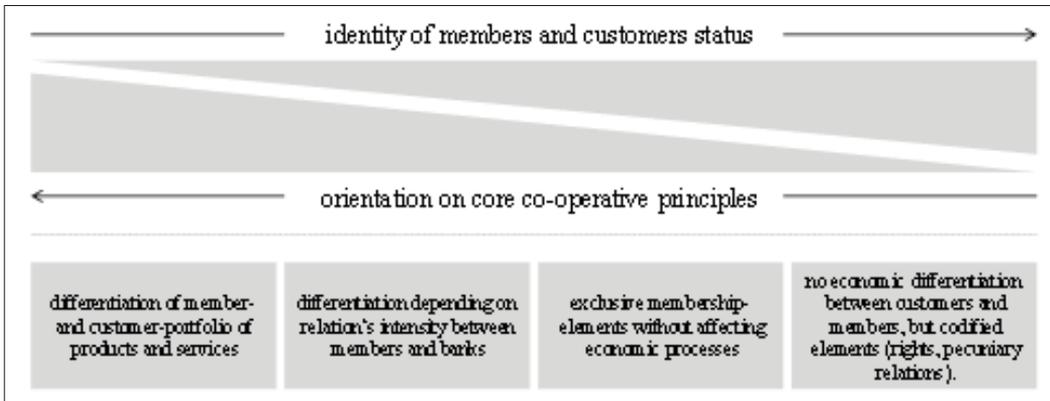


Figure 3 – Interpretation approaches of membership<sup>12</sup>

<sup>11</sup> In this case, customers are defined as non-members. They demand products and services of co-operatives, but have no participation or co-determination rights as well as the owner status of members.

<sup>12</sup> Interpretation approaches are extracted in relation to the statements of expert interviews. Therefore, the constellation does not claim to be complete. For detailed information, see TSCHÖPEL (2011a).

<sup>13</sup> This statement is related to the eleven participating co-operatives in case of the preliminary study.

**[B\_10]** “According to our membership orientation, we necessarily calculate or estimate the cost-income-ratio and the average profit margins of those activities.”

Such an adequate MemberValue-management requires knowledge about influence and success factors of the membership orientation. According to approved measurement instruments, those factors have to be characterised by their impact and their relevance (TÖPFER (2008), p. 309ff.). Therefore, a measurement instrument has not only to ascertain the performance of individual membership elements to answer the question, how satisfied co-operative members are with those elements, but also the specific relevance of those activities, what is defined as individual weighting of those elements by co-operative members. An isolated view of performance indicators may lead to misallocations and may impede the efficiency of the membership-orientation (TÖPFER (2009), p. 341).

For this reason, a preliminary explanatory model should be presented in the following (chapter 4). It should present impact factors on membership orientation based on a theoretical approach, the MemberValue-strategy and should answer the question, which factors are relevant for MemberValue-success.

## MEMBERVALUE: EXPLANATORY MODEL

The explanatory model of the MemberValue of co-operative banks – as requirement for the development of a measurement instrument – will be based on theoretical cognitions as well as the explorative study. This procedure aims at the conception of an adequate structure of factors and dimensions of the MemberValue (BÖTTIGER (2009), p. 101).

Within the MemberValue-Strategy, the service components are structured by the specific functions of co-operative membership. Thus the MemberValue consists of three interdependent components, which implies a coherent view (THEURL (2002), p. 85; THEURL (2005a), p. 139; BÖTTIGER (2009), p. 81f.), the *direct MemberValue*, *indirect MemberValue* and *sustainable MemberValue*.

- The *direct MemberValue* summarizes those components, which result of the member's function as service partner of its co-operative bank. For example competitive conditions and defined quality standards are mentioned (THEURL (2002), p. 85). Co-operative banks can

increase the direct MemberValue if they offer high quality banking products and services to their members and give them the opportunity to choose and use them while being advised.

- The *indirect MemberValue* results of the members function as owners of the co-operative with focus on their status as investors. It summarizes all pecuniary relations between members and their co-operative bank (THEURL (2002), p. 85; TSCHÖPEL (2010a), p. 20). It is obvious that co-operatives can fulfil the indirect MemberValue if they ensure an efficient value creation and can transfer related payment flows to their members (TSCHÖPEL (2010a), p. 20). The indirect MemberValue also summarises all co-determination and participation rights of co-operative members.
- The *sustainable MemberValue* is also a result of the members function as owners, but with focus on their status as entrepreneurs. It summarises all values as result of investments in financial co-operative retention. The sustainable MemberValue is closely related to an important objectives of co-operatives, not to promote only current members but also ensure the future potential for members' benefits (WEIDMANN/STRECKER (2009), p. 184).

Based on this theoretical discussion, the optimisation of the MemberValue-components lead to an increasing MemberValue as aggregated success figure, what implies that the benefit concerning the co-operative bank also increases for co-operative members. According to this, there are three hypotheses in relation to the explanatory model.

**[H\_1]** *The increase of the direct MemberValue positively correlates with the level of the aggregated MemberValue.*

**[H\_2]** *The increase of the indirect MemberValue positively correlates with the level of the aggregated MemberValue.*

**[H\_3]** *The increase of the sustainable MemberValue positively correlates with the level of the aggregated MemberValue.*

Corresponding to this hypothesis, the interdependencies of MemberValue-components should be mentioned. Based on a consistent MemberValue on aggregated basis, the components may compensate among themselves (THEURL (2007), p. 34f.). As an

example, resources used for long-term investments in strategies, processes or organisations cannot be

used for improvements in service or product quality as well as the other way round (see figure 4).

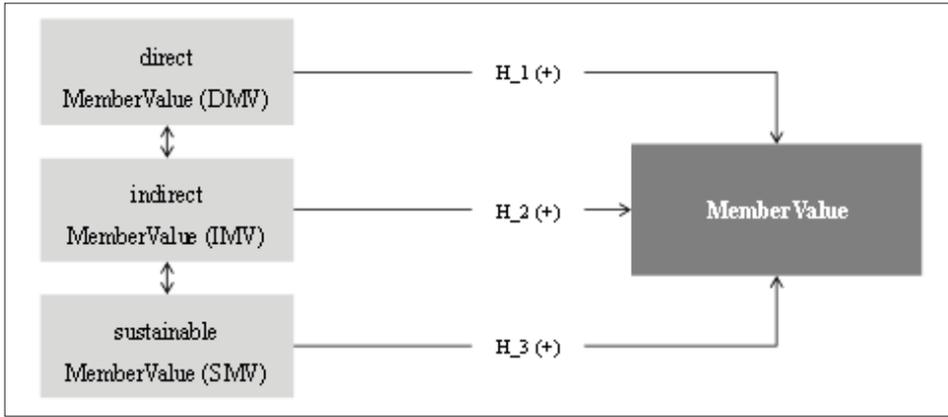


Figure 4 – MemberValue-components and interdependencies

## ELEMENTS OF THE DIRECT MEMBERVALUE

The direct MemberValue summarises all primary relations between members and their co-operative institution on product and service levels. In case of financial co-operatives, those relations are namely the provision and distribution of financial services and products for retail as well as business customers. Additionally, advising services have to be mentioned. Therefore, the direct MemberValue defines such values, which results of the members’ function as service partners of co-operative banks.

The first element of the direct MemberValue is named as financial *products and services*. As form of financial intermediaries, co-operative banks offer specific products and services for capital formation and debtors (BITZ/STARK (2008), p. 4ff.). As universal banks, financial co-operatives also supply finance-related products and services by their co-operative network partners, especially in relation to their integrated advisory approach, for example insurances or fond transactions. Additionally, all necessary facilities and technical structures for financial transactions are also subsumed. The provision of financial products and services is not just part of this element, but also their quality aspects as well as monetary conditions. Therefore,

the ratio of price and performance is also included in this definition.

Focusing on quality aspects, the participants of the study do not recognize advantages in quality aspects for co-operative banks as well as for general banking forms in their sector. On this basis, a strategic alignment in relation to quality is not a promising strategy for financial co-operatives because of the lack of possibilities to achieve competitive advantages concerning quality aspects (TSCHÖPEL (2011b)). For this reason, the offer of high quality products and services is a necessary condition to compete in the German banking sector, but not a sufficient condition for a competitive strategy.

**[B\_3]:** “All banking forms and institutions try to achieve quality advantages. But it is questionable that this lead to perceptive value for customers. [...] They legitimately have the expectation of high quality banking products and services fitting their own preferences. Every banking form can fulfil those demands. Finally, customers decide either in reference to the customers’ relation to their bank or in reference to conditions.”

Based on this argumentation, the first hypothesis of the direct MemberValue can be mentioned as following.

**[DMV\_1]:** *Improvements of products and services as well as their conditions and quality have a positive influence on the aggregated direct MemberValue.*

The second element of the direct MemberValue can be described as *advisory services*. Personal advisory services are named as core competence of the co-operative banking sector by the participants of the explorative study.<sup>14</sup> This perspective is directly connected with the focus on products and services of financial co-operatives.

**[B\_8]:** *“Advisory services may be a distinctive feature for co-operative banks. [...] Several banking groups see themselves as powerful in advisory, but we have the ability to prove this advantage in relation to our customers.”*

Because of personal and systematic advisory services (holistic approach), the relation between members and co-operative institutions can be stabilised and sustainable trust may be generated. In case of complex financial services or products, personal advisory services constitute a valuable advantage for co-operative members. The quality of advisory services not just depends on professional competencies, ability of finding individual solutions or engagement, but also immaterial values like trustworthiness or reliability. Personal advisory services may also have a positive influence on the business relations to co-operative members.

**[M\_7]:** *“Customers may increase trust and stable relations because of their long-term partnership with the banks’ employees.”*

Based on this argumentation, the advisory services can be characterised as an element of the direct MemberValue.

**[DMV\_2]:** *Improvements of advisory services have a positive influence on the direct MemberValue.*

*Relation factors* are the third element of the direct MemberValue. On the one hand, those factors consist of relation intensity and stability<sup>15</sup> between members and their bank. On the other hand, the monetary remuneration of the intensity of business relation is also an element and it is described as an

important development for co-operative banks by the studies’ participants.<sup>16</sup>

The first element, the intensity and stability of relations, is influenced by personal contacts in the local bank and subsumes all instruments to support long-term relations based on trust and sustainability.<sup>17</sup>

**[B\_2]:** *“A bank is anonymous. There is no possibility to establish a relationship, but to their employees, especially to members’ contact persons. Members develop a relationship to their contact persons. If it is right, this relationship is characterised as a trust-based relation.”*

Today, such stabilising mechanisms are more relevant because of the worldwide financial market crisis and their consequences. As an indicator for that development, co-operative banks increased their number of members and customers during the crisis and are characterised as ‘secure harbour’ in the banking sector (BÖHNKE (2010), p. 105).

The reimbursement of the intensity of relations was named as second part of the relation factors. In case of the participating banks, this model is embedded in specific marketing instruments, for example bonus systems.

**[B\_2]:** *“Our bonus system had a great success, because we rewarding intense business relations. In contrast, we reduced the dividends [...] and our members and representatives did support us. Although, many of our representatives with high credit balance had undergone monetary disadvantages because of that process.”*

Those reimbursement mechanisms change financial conditions of products and services ex post. Therefore, this instrument is not characterised as a value component of members’ owner function, but their service partner function contrary to the reimbursement of the indirect MemberValue (see chapter 4.2). The argumentation on relation factors lead to the following hypothesis.

<sup>14</sup> For details about the core competence of companies, see PRAHALAD/HAMEL (1990).

<sup>15</sup> Stability means the long-term orientation of business relations.

<sup>16</sup> Co-operative banks intensify their pecuniary relations to members depending on the intensity of relations. Members can intensify their relation by higher deposits or revenues and may earn a reimbursement. Some of the participating banks changed their dividend-oriented system to such a kind of pecuniary strategy.

<sup>17</sup> THEURL (2011) describes the importance of long-term relations in co-operatives.

**[DMV\_3]:** *The increasing stability and intensity of relations between members and their bank has a positive influence on the direct MemberValue.*

The conditions within partnerships between members and financial co-operative could be possible define the fourth impact factor of the direct MemberValue. The conditions are primary characterised by local accessibility and their important asset – the branch network (BVR (2009), p. 5). Therefore, the following hypothesis could be derivate.

**[DMV\_4]:** *The improvement of financial co-operatives' conditions has a positive influence on the aggregated direct MemberValue.*

The network factors are the fifth element of the direct MemberValue. They define interaction options between members and bank on service and product levels. Additionally, the image of co-operative banks and the external communication is also part of this element.

The band width of network activities by financial co-operatives is very extensive according to the preliminary study. They include finance oriented events and information possibilities as well as independent activities with no obvious connection to banking activities. Those instruments have to be evaluated by their cost-performance-ratio. Financial co-operative should only organise such activities, if short- or long-term benefit is significant. Those activities aim at several objectives of the co-operative bank, especially the intensification of relations between members and bank as well as establishing possibilities for personal contacts.

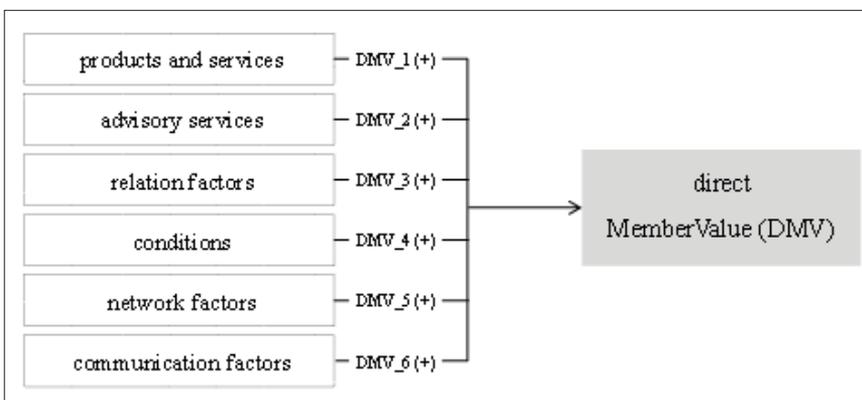
Therefore, the network factors may possibly be an element of the direct MemberValue.

**[DMV\_5]:** *The optimisations of network factors have a positive influence on the direct MemberValue.*

Communication factors are the last element of the direct MemberValue and they can be divided in codified communication instruments as well as member- or customer oriented communication instruments. The first part includes all communication services in relation to the transparency of co-operative management activities as well as information of the general assembly or representative assembly. Therefore, those instruments may fulfil the needs of members' information demand concerning the sustainability and economic development of the co-operative institution. Secondly, communication instruments also exist on product and service levels. They optionally offered by co-operative banks to fulfil the preferences of the members' service partner function. Based on the assumption, that information demand is given by co-operative members, the financial co-operatives have to focus on their communication channels and communication instruments.

**[DMV\_6]:** *The level of communication factors has a positive influence on the aggregated direct MemberValue.*

The individual elements are impact factors on the direct MemberValue, which were presented on a hypothesis-based-relation and mostly independently on each other. They will be visualised in the following (figure 5).



**Figure 5** – Components of the direct MemberValue

## ELEMENTS OF THE INDIRECT MEMBERVALUE

The indirect MemberValue is determined by the relation of members and co-operatives because of their status as investing owners. The satisfaction of the indirect MemberValue necessarily requires that financial co-operatives act efficiently and could transfer related payment flows to their members.

The *pecuniary factors* are a constituent element of the indirect MemberValue. They consist of dividends as a traditional form of members' financial participation return as well as a possible financial reimbursement because of the co-operatives' economic value creation.<sup>18</sup> In case of the indirect MemberValue and reflecting the interdependencies of MemberValue-components, a trade-off between financial pay-outs and the increase of monetary reserves is observable.<sup>19</sup> Nevertheless, the hypothesis concerning the pecuniary factors needs to be formulated:

**[IMV\_1]** *The increasing benefit of pecuniary relations between members and financial co-operatives has a positive influence on the aggregated level of the indirect MemberValue.*

The second element of the indirect MemberValue is based on *control factors* and includes all participation rights and co-determination rights of co-operative members. The participation rights allow members to secure compatible interests between themselves and the co-operative institution, especially the board of directors and supervisory board.<sup>20</sup> For this reason, the management may be indirectly influenced by members and they offer those products and services in tendency, which

<sup>18</sup> This form of reimbursement fundamentally differs to the compensation in relation to members' revenues as part of the direct MemberValue. This form is related to an implicit and temporary participation of co-operatives value creation, comparable to the shareholder value orientation. This theoretical possibility is not used by those co-operatives participating in the explorative preliminary study.

<sup>19</sup> Because of that fact, the increasing pay-out of dividends leads to a decreasing resource base for long-term investments. Therefore, the short-term value creation for current members has a negative influence on the long-term potential to support future members and secure long-term viability.

<sup>20</sup> The „one man – one vote“-principle could be mentioned. Because of that principle, the co-operatives' decision-making processes cannot be dominated by a minority of members.

creates the most extensive value for co-operative stakeholders.

**[B\_8]** *“We bluntly explain ownership and corresponding participation rights. [...] Ownership is an important advantage for the co-operatives' communication to their members.”*

**[B\_2]** *“Co-determination and participation rights are very important. Not because members have those rights de facto, but also have the feeling to participate in the banks' strategic processes and being a part of it.”*

According to the governance of the co-operative partnership, members can assert their interests and preferences because of the democratic principles (THEURL (2005b), p. 25; THEURL (2010), p. 82f.). In fact, the practical relevance of those rights is increasingly diluted because of several reasons. The participants mentioned less engagement as well as limited economic knowledge of members. From a managements' perspective, the wide democratic rights might also possibly be contrary to an effective and efficient ability to act in the competitive banking sector.

Nevertheless, the co-determination and participation rights – named as control factors – may have an indirect influence on the ownership function of co-operative members as decision-making-participants.<sup>21</sup> For this reason, the following hypothesis for the explanatory model can be extracted.

**[IMV\_2]** *The communication and assertion of control factors has a positive influence on the aggregated MemberValue.*

The elements of the indirect MemberValue are visually summarised in the following (see figure 6).

<sup>21</sup> In addition to an indirect influence on the MemberValue, those participation and co-determination rights might also have a sustainable impact on the MemberValue-success, especially decisions concerning the long-term strategic alignment of co-operatives. For this reason, the classification is not selective.

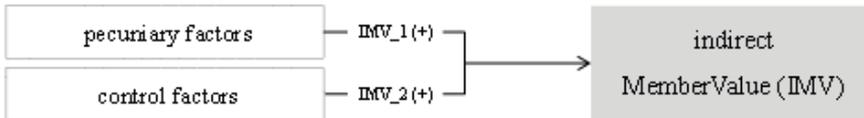


Figure 6 – Components of the indirect MemberValue

## ELEMENTS OF THE SUSTAINABLE MEMBERVALUE

The sustainable MemberValue constitutes the sustainability of financial co-operatives' value creation and the long-term benefit for co-operative members. Co-operative banks have to create a sustainable MemberValue by fulfilling their members' interests and needs as well as ensuring an option for their members to participate in co-operative processes in the future.

According to this argumentation, the *option benefit* (participation benefit) is core content of the sustainable MemberValue. It is a reflection of the co-operative sustainability and the long-term orientation of the co-operative business model. Therefore, co-operative members have a benefit because of their possibility to participate in the co-operatives' value creation in the future (THEURL (2011)). Particularly based on the worldwide financial market and economic crisis, sustainability and the option benefit is increasingly rated by co-operative members and valued as an obvious asset. This development also implies positive economic effects for co-operative institutions.<sup>22</sup>

**[B\_10]** *"The financial market crisis exhibited our customers, what they really want and it was obviously not the best conditions in the banking sector. An exclusive orientation on prices and returns was obviously not sustainable. They rather asked themselves: What is sustainable banking?"*

The option benefit of long-term orientation is not just related to the primary bank itself, but also to the financial network on second or even third level of the German co-operative banking system. Therefore, co-operative members can also participate in specialised and centralised services of the Co-operative Service Network. Because of investments in strategies, institutions and processes of the network by primary banks, members have also option benefits because of the sustainable stability

of the co-operative service network.<sup>23</sup> Thus, the option or participating benefit can be mentioned as a component of the sustainable MemberValue.

**[SMV\_1]** *The creation of optional benefits for co-operative members has a positive influence on the aggregated sustainable MemberValue.*

The option benefit – as long-term benefit – is strongly influenced by present or planned investments in structures, institutions and processes of the co-operative banks as well as monetary reserves, which might help to ensure the sustainability of financial co-operatives. Therefore, the *investment factors* as a component of the sustainable MemberValue can be characterised by financial reserves as well as investments in sustainability, for example institutional regulations for risk prevention. Financial co-operatives have to deal with the task, to limit the direct and indirect value creation for their members to secure or extend the sustainable membership orientation, especially while extend the monetary reserves or use those reserves to invest in the co-operative institutions.

**[B\_2]** *"We transparently communicate, that we have to invest in technical facilities and we should secure as well as optimise our organisational structures."*

The institutional protection against economic risks of co-operatives and the Financial Service Network is also part of the investment factors. Therefore, this protective institution is rated as an asset and obvious value for co-operative members (BVR (2009), p. 12).

**[B\_5]** *"Institutional protection is not that easy to communicate, especially in relation to the co-operative network. [...] In principle, co-operative members and customers are aware of the co-operatives' institutional protection."*

<sup>22</sup> For example increasing market shares, deposits and number of members and customers, see BVR (2010b).

<sup>23</sup> In this case, the participation rights of primary banks in committees of the service network may help to influence the structure of the service network in relation to the interests and preferences of the co-operative members. So, the configuration of the service network by primary banks might have also positive effects on the optional benefit of primary banks' members.

*That is why we were able to increase our numbers of members and customers during the financial market crisis.”*

In contrast, most of the participating directors mentioned, that the institutional protection will not be communicable as a long-term value or core factor of the business model. Therefore, the communication should not be focused on it, but rather on the sustainable governance structure, what indirectly implies the risk prevention because of the institutional protection.

According to the argumentation, the investment factors determine the explanatory model on sustainable perspective. This lead to the following hypothesis:

**[SMV\_2]** *The investment factors and their purpose of ensuring the long-term viability of the co-operative bank have a positive influence on the aggregated sustainable MemberValue.*

The *interaction factors* are the third component of the sustainable MemberValue and determined the regional or local responsibility of financial co-operatives. Those elements might have a positive influence on the sustainable development of the co-operatives’ value creation as well as an impact on the development of their environment. Interaction is possible between co-operative institutions/ members and their local market environment, what implies outer interaction activities. Such an interaction is also possible between banks and their members, what implies inner interaction activities.

The local or regional engagement is an important part of the co-operative self-conception and

there are different types of engagement depending on the entrepreneurial focus. Some of the participating co-operatives describe local engagement as a consistent part of their membership orientation while some participants define it as an independent part of the co-operative business model.<sup>24</sup>

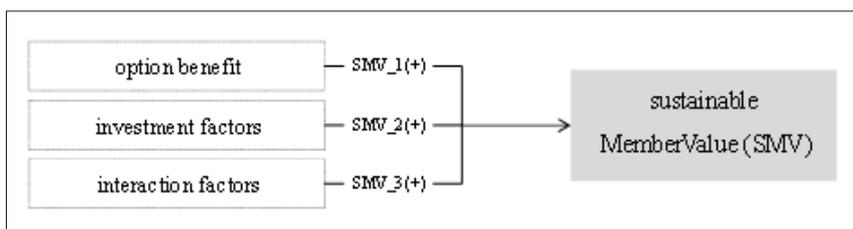
**[B\_7]** *“Membership is the core of our business policy and everything else is arranged around it. This does not preclude the possibility of local engagement or regional responsibility.”*

**[B\_10]** *“Our business policy consists of three components within a holistic strategy [...]. Those elements are connected to each other and are named as membership [...], quality and local responsibility. We also have to create values for our region.”*

Depending on the understanding of strategic relevance of local responsibility, financial co-operatives try to achieve different objectives with it. In common, they attempt to intensify their relation to co-operative members and their local embeddedness. In a long term, the impact on image and the external communication may help to stabilise their market position. This would lead to reliability and would be more conducive for their sustainable value creation. Based on this discussion, the sustainable MemberValue also consists of interaction factors.

**[SMV\_3]** *The interaction factors have a positive influence on the aggregated sustainable MemberValue.*

The components of the sustainable MemberValue can be summarised as followed (figure 7).



**Figure 7** – Components of the sustainable MemberValue

<sup>24</sup> In this case, local or regional responsibility summarises all moderating, organisational and supportive banking activities purposing the support of members’ economic situation, for example in case of establishments of own companies. Additionally, members have an expectation towards their bank to act as an ‘agent’ for local development in their interest.

## INTEGRATED EVALUATION OF THE MEMBERVALUE

According to the cognitions and the explanatory model, which was evaluated by the explorative preliminary study and theoretical discussions, the hypothesis-based model of the MemberValue can be extracted. It should help to explain the impact and influence factors on co-operative members' benefits (see figure 8).

At this point, a core aspect of the explanatory model should be mentioned. The MemberValue-strategy has to be developed and evaluated by each co-operative bank individually, especially because of their different competitive circumstances. Therefore, the management as well as members

of the financial co-operative assign differentiable weights for each element of the MemberValue-strategy of financial co-operatives. The precise application possibilities of those elements may differ between different financial co-operatives and some may not be part of their membership-orientation. The explanatory model rather shows the portfolio of MemberValue-elements of co-operative businesses, which are expressed by the participants of the explorative study.

Furthermore, the MemberValue-strategy as well as recommendations based on the MemberValue-management should not be evaluated on a single survey, but on a permanent evaluation of members' preferences and needs. This also allows the identification of possible shifts of preferences by co-operative members (Tschöpel (2010b), p. 25).

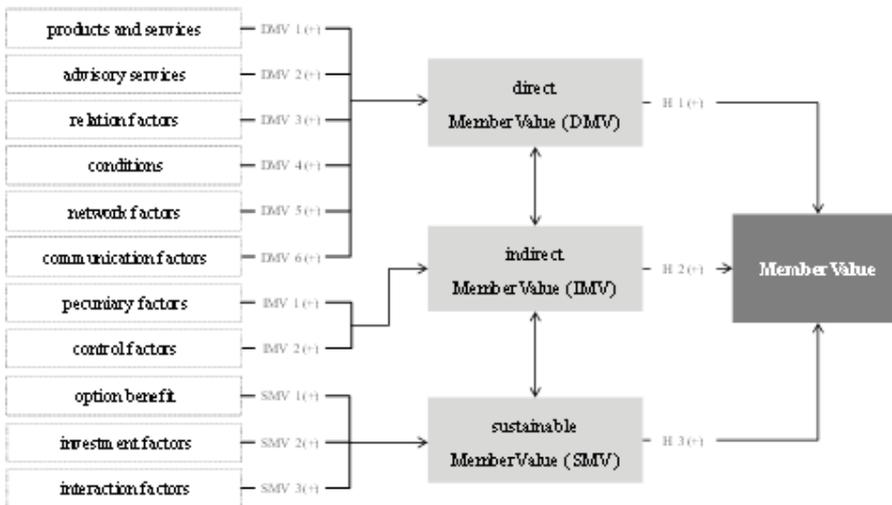


Figure 8 – Explanatory model of the MemberValue

## CONCLUSION

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The present article should analyse, in which ways the MemberValue-strategy of financial co-operatives can be transferred into a contemporary management approach and which impact factors are possibly relevant for MemberValue-success. The derivation of a hypothesis-based explanatory model for the MemberValue was the superficial purpose of this article and was made in consideration to the MemberValue-model by THEURL (2002).

In fact, the success of members is determined by the satisfaction of their functional status as service partners (direct MemberValue), participants in decision making processes as well as investors (indirect MemberValue) and owners (sustainable MemberValue). It was mentioned, that the MemberValue not just consist of material elements, but also immaterial values like sustainability, trust and control.

The theoretical derivation of possible impact factors on co-operative success (MemberValue) is just a precondition to establish an adequate MemberValue-management. Those factors have to be statistically evaluated by an empirical survey to test the model and to derivate recommendations for specific management activities. For this reason, a members' survey by using questionnaires should be realised.<sup>25</sup> Such a survey might help to identify the success factors of co-operative membership orientation by evaluating the performance and individual members' relevance for each influence factor.

This procedure should not just be a contribution to the theoretical discussion concerning the derivation of strategic instruments for co-operative membership orientation. This study and the conception of the MemberValue may also have an impact on the answer, what co-operative success actually is and how co-operative success could be measured.<sup>26</sup>

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<sup>25</sup> In concrete terms, the quantification of the MemberValue will be developed and a survey will be realised within a research project at the Institute of Co-operative Research, Münster by the end of the year 2011.

<sup>26</sup> The conception of the MemberValue and its relevance for the operationalisation of co-operative success was discussed in a conference paper by Tschöpel (2011b).

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# FEELING SATISFIED BY FEELING MOTIVATED AT WORK: EMPIRICAL EVIDENCE IN THE ITALIAN SOCIAL SERVICES SECTOR<sup>1§</sup>

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**Key words:** worker satisfaction; motivations; procedural fairness; distributive fairness; interactional fairness; context

## INTRODUCTION

In mainstream economics, employment relationships were mainly conceived as exchanges of wage for time and effort. A similar approach has been followed by principal-agent theory (e.g., Alchian and Demsetz, 1972; Arrow, 1974), where the principal, in order to maximize her profit, is constrained by the utility preference of the worker and must choose the wage level able to screen workers and to guide appropriate actions by the agent. In both approaches, the only incentive entering linearly and positively in the workers' utility function is the wage, while the cost of effort is negatively correlated with it.

Consequently, both theoretical and empirical analysis has at length devoted most attention to pay-for-performance, deferred compensation and team production (Prendergast, 1999). Nevertheless, some inefficiencies in the contractual schemes emerge due to the costs of contracting (Coase, 1937; Williamson, 1985) and incompleteness (Grossman and Hart, 1986). These inefficiencies especially increase in multi-tasking activities, where employee performance consists of both quantitative and qualitative activities.

Since economic incentives can fail to gain the maximum possible degree of worker commitment, the emergence of new economic approaches to workers' preferences has progressively developed, by giving rise to experimental analyses and behavioral theory. They demonstrate that worker involvement can be increased also through non-monetary incentives. Behavioral economists have reflected on the multifaceted nature of employment relationships and on the importance of incentives other than wage to increase workers' satisfaction and effort. Job satisfaction is therefore today conceived as a complex mental process, in which employees evaluate different aspects of their jobs and are moved by several preferences, motivations, and needs. Furthermore, job satisfaction is no more conceived as only a constraint to the screening process, but it becomes a specific objective of human resource management policies, especially in jobs where employee commitment is crucial to organizational outcomes, for example when labor contracts are highly incomplete due to asymmetric information and to the relational content of the delivered services.

More attention must be given to this multifaceted nature of the determinants of employee satisfaction and commitment. With this aim, the paper briefly reviews in section one the theoretical approaches and main empirical results that have considered the main components of job satisfaction.

<sup>1§</sup> We are indebted to Carlo Borzaga, Lorenzo Sacconi, Marica Manisera and Enrico Ciavolino for precious comments and suggestions. Of course, any error or omission is the authors' responsibility alone.

By combining them, it depicts a comprehensive mental process of construction of job satisfaction and proposes a simple model that is tested in the empirical sections.

The paper then introduces an empirical investigation on Italian social co-operatives: private non-profit organizations with a productive aim, which combine in their performances the social with the economic dimension. Nonprofit organizations, and especially social co-operatives, emerge as interesting working environment since workers' motivations are demonstrated to also include intrinsic and non-self regarding components (Rose-Ackerman, 1996; Young, 1983). Nevertheless, the possible correlation of diverse motivations and other behavioral drives with job satisfaction has not yet completely demonstrated.

The paper tests the determinants of job satisfaction using a cross-section analysis. Data were collected in 2006 with an investigation concerning 4,134 workers in 320 Italian social enterprises. Apart from information on workers' motivations and the job features, data were also collected on the degree of job satisfaction, which in the survey was decomposed into 25 different aspects of the job and of the working environment. Three synthetic representations of job satisfaction are produced in the following analysis: overall job satisfaction and satisfaction with extrinsic and intrinsic aspects of the job. The main statistics of workers' socio-demographic features, motivational drives, satisfaction, and fairness are displayed and discussed in Section two. Section three introduces the econometric analysis of the factors influencing worker on-the-job well-being. Section four concludes with some discussion about the relations between the econometric findings and the theoretical premises.

## THE MENTAL PROCESS OF CONSTRUCTION OF JOB SATISFACTION

The estimation of job satisfaction is a compound mental process: it compares one's own expectancies on the ideal job with the effective job; it includes both physical and psychological factors; it requires the employee to consider all the characteristics of the job and of the employment relationship. Several possible determinants of job satisfaction have therefore been included by scholars in both theoretical and empirical analyses. The contribution of the empirical literature is crucial, but puzzling in many respects. Researchers have in fact gener-

ally dedicated their attention to only some determinants at a time, given the difficulty both in designing appropriate questionnaires including the most relevant explanatory factors of job satisfaction and in carrying out models including proxies for many aspects of the job and characteristics of the worker.

The various determinants of job satisfaction can be however summarized by exploiting the study by Locke (1969, 1976) and by integrating his approach with notions of behavioral theory and results of empirical analyses.

## THE PROCESS AND THE DETERMINANTS

The mental process leading to the definition of job satisfaction was quite well approximated by L.A. Locke when asserting that "[j]ob satisfaction results from the perception that one's job fulfils or allows the fulfillment of one's important values, providing to the degree that those values are congruent with one's needs" (1976, p. 1307). Specifically, job satisfaction is depicted as a multiplicative function where employees compare their value content (included what they want and expect) with the perceived amount of the value provided by the job and weigh the difference through their individual value importance. Three key elements explicate therefore the level of job satisfaction.

The first variable, i.e. the value content, expresses the amount of benefits wanted by the employee. This variable is assumed to be directly explained by the individual needs and expectancies concerning the job. While a direct measure of workers' expectancies is difficult to propose, empirical studies approximated them mainly by the natural traits and professional characteristics of workers. In fact, empirical studies show a tendency of homogeneous classes of people to adopt homogeneous expectancies. For example, women and men differ in their expectancies and this is why job satisfaction tends to be higher for women (Clark, 1997). However, the female satisfaction premium is reported to have decreased in the last years due to the convergence of expectancies between men and women (Sousa-Poza and Sousa-Poza, 2000). Similarly, the higher satisfaction of workers with lower levels of education is explained by higher expectancies of highly-educated people and in particular by educational surpluses (Tsang et.al, 1991). Also, age is correlated with job satisfaction, but in a U-shaped way, and so employees' expectancies seem to be lower when they enter the labor market and to follow a process of adaptation in the long run. While empirical analysis usually restrict to differences in wages expectancies, it is also possible to

assume that value content also includes diverging needs and wants regarding other monetary and non-monetary features of the job. As proposed by Maslow (1970), they can be categorized into five areas: physiological needs, needs of security, needs of identification and involvement, needs of esteem, and needs of self-fulfillment. All these categories determine expectancies of workers and requires to be satisfied.

The second variable, i.e., the perceived amount of value provided by the job, approximates the level of incentives received, the characteristics of the work and of the working environment. It also implies that employees do not only objectively indicate the amount of incentives received and the organization *per se*, but they also subjectively perceive the fairness of the employment relationships. Consequently, the subjective employees' understanding of their job and of their well-being can be described as "a complex interrelationship of tasks, role, responsibilities, interactions, incentives, rewards" (Locke, 1976, p.1301). These several dimensions can be classified into three groups: the work, the context, and the rewards.

Work explicates the manner in which the job is carried out and thus it includes variables such as task activities, professional training, control, achievement, variety, and intrinsic interest for the job. Empirical investigations have generally concluded that especially intrinsic aspects of work positively influence job satisfaction. Examples include having an interesting job (Skalli et al. 2007; Sousa-Poza and Sousa-Poza 2000), a "good job contents" (Clark, 2005), autonomy and self-determination (Verme, 2009; Hechanova et al. 2006), and workers' participation in managerial review processes (e.g. Soonhee, 2002).

The context refers to physical and social working conditions. Empirical studies have evidenced the significance of the working hours and the physical work environment (as in Gazioglu and Tansel, 2006), the negative correlation with the firm size (as in Clark, 1997) and the linkage with the sector of activity and the organizational form (Diaz-Serrano and Cabral Vieira 2005; Ghinetti 2007). Also employees' relatedness with colleagues (Clark 1997), customers (Borzaga and Depedri, 2005), and managers (Helliwell and Huang, 2010) have been demonstrated to be positively correlated with job satisfaction.

Rewards consist of all the economic benefits supplied by the organization, as pay, promotion, and other benefits, but also verbal recognition and responsibilities. The empirical literature on wages is quite puzzling. While in some studies workers'

compensation, wage and job satisfaction seem positively related, other studies revealed a negative or undetermined relationship between the wage level and job satisfaction (for a survey, Pugno and Depedri, 2010). A stronger correlation emerges instead between job satisfaction and some sub-dimensions of the wage: policies of budgetary participation increase job satisfaction (Lau and Tan 2003), as well distributive fairness<sup>2</sup> (Benz 2005), increases in workers' pay over time (Clark, 1999), and promotion opportunities (Clark, 1997). Employee satisfaction also increases with social approval and non-monetary rewards (Gaechter and Falk, 2000) and with the fairness of procedures followed (Tortia, 2008).

The third variable entering in the job satisfaction definition by Locke is the value importance. Employees express individual preferences for each aspect of their job in line with their values. Starting from the '80s, also behavioral economics has stressed the presence of people with heterogeneous preferences in terms of values assigned to both monetary and non-monetary rewards and preferences. The theory specifically assumes the psychological term of motivation. Motivations are usually sorted into extrinsic and intrinsic motivations (Benabou and Tirole, 2003; deCharms, 1968; Deci, 1975). Extrinsic motivations emerge when workers satisfy their needs indirectly, mainly through monetary compensation and buying goods or services. Intrinsic motivations are fulfilled when workers undertake an activity for their immediate satisfaction. Consequently, the intrinsic nature is specific to the task and directed to: the flow of activity, a goal that is self-defined, and the obligation of personal and social norms—benevolence, identity, fairness—for their own sake (Frey, 1997). Intrinsic motivations include the interest in the activity performed, good relationships with other colleagues and with superiors, and involvement and autonomy in decision-making at the operational and strategic level (Fuchs-Schundeln, 2009; Benz and Frey, 2008). They satisfy non-basic needs and specifically self-esteem and self-fulfillment. The connection between motivations and wellbeing has generally been recorded to be strong, but not necessarily with a positive sign, since extrinsic motivations can decrease worker wellbeing (Borzaga

<sup>2</sup> Distributive fairness is the perception of correctness of the level of the wage earned in comparison to different aspects of the job (e.g. stress, role) and individual status (e.g. level of education) or a benchmark (e.g. the market wage or other colleagues' wages), while procedural fairness refers to the correctness of organizational procedures, the transparency in the transmission of information, and the equity in managing careers.

and Depedri, 2005). Furthermore, the intensity of values also depends on the preference of employees for aspects other than the self-sphere and specifically upon social preferences (as defined by Fehr and Schmidt, 2001)<sup>3</sup>.

All the described elements seem to enter in the utility function of workers and must be therefore studied together with other possible explicators of the final level of job satisfaction proposed in the following subsection.

## THE INTERACTIONS

The mental process of construction of job satisfaction can be disturbed over time by some interactions. The most studied of these interactions has been that between extrinsic rewards and intrinsic motivations (Frey and Osterloh, 1999); when an increase in extrinsic rewards decrease the intrinsic motivation of workers, a crowding-out effect emerges. It can also have an undetermined impact on job satisfaction (as empirically demonstrated by Deci and Ryan, 1985; Frey and Jegen, 2000), since, under specific conditions, extrinsic rewards can be perceived by workers as ways of controlling and disciplining. Furthermore, as shown by Akerlof and Kranton (2000), in some contexts, wage rewards can damage workers' self-image as jobholders and their involvement in the team and organizational mission.

Interactions also concern behaviors of employees within an organization. As Manski (1995) states "individuals belonging to the same group tend to behave similarly" due to three main typologies of effects (p.127). First, endogenous effects emerge when the individual behavior is influenced by the prevalence of that behavior in the group. Second, contextual effects are identified in the adoption of behaviors which are influenced by the distribution of background characteristics in the group. Third, correlated effects consist in the emergence of similar behaviors of employees in one organization because they face similar institutional environment or have similar individual characteristics. The homogeneity of perceptions and attitudes of workers within organizations has been confirmed by studies on homogeneity of employees' skills (Mortensen, 1984) and interpersonal relations (Krueger and Schkade, 2007). Therefore, the working environment simultaneously tends to select people with similar characteristics and to motivate employees towards similar behaviors, perceptions,

and satisfaction levels due to the prevalence of those characteristics and behaviors in the group.

The picture describing job satisfaction is now complete while complex. All described elements and interactions can be simplified in empirical analyses by assuming linear relations between job satisfaction and its determinants. These later can be further summarized by workers natural and socio-demographic traits (accounting also for expectancies), by motivational drives, and by the perception of the features of the working context in terms of fair outcomes and procedures. The habituation of the individual to the organizational context is accounted by considering also the impact of organizational averages on worker satisfaction. Finally, also the main features of the wider socio-economic context are considered in order to depute as much as possible the results from external heterogeneities.

## EMPLOYEES' WELL-BEING IN ITALIAN SOCIAL ENTERPRISES

The empirical analysis is carried out on a cross-section dataset named ICSI2007 (Survey on Italian Social Co-operatives). Data were collected by a pool of six universities<sup>4</sup> in 2006 through questionnaires submitted to a representative sample of 4,134 employees of 320 Italian social co-operatives.<sup>5</sup> The main source of data is represented by the questionnaire delivered to paid workers, while we take advantage also of some information coming from the questionnaire for organizations. The survey includes a large set of questions including socio-demographic controls, job characteristics and job satisfaction with respect to a number of possible domains ranging from extrinsic ones to intrinsic and relational ones. Worker motivations and the perception of various organizational dimensions

<sup>4</sup> Trento, Bergamo, Brescia, Milano Bicocca, Napoli Federico II and Reggio Calabria.

<sup>5</sup> The initial sample was extracted from the National Institute of Statistics' census on social co-operatives (ISTAT, 2007), which recorded 6,168 active firms (with at least one employee) at the national level. Representativeness at the national level was guaranteed by stratification on the basis of three parameters: typology of co-operative (producing social services and supplying work integration), geographic representativeness by macro-area (North-east, North-west, Centre and South); and size. The ISTAT sample was made up of 411 organisations, but responses shrank to 320 organizations.

<sup>3</sup> The authors claim that social preferences in general emerge when the utility of an individual is affected by variations in the allocation of the physical resources of other people.

such as fairness, autonomy and teamwork were enquired as well.<sup>6</sup>

For the sake of brevity we restrict to the Appendix (Table A1) the descriptive statistics of the socio-demographic features of the workforce and of the main objective variables explaining the work, the context, and rewards. Interesting is to note that the average hourly wage is quite low even by Italian standards and equals 6.61 Euros.<sup>7</sup> The percentage of workers who stated an hourly wage lower than 5 Euros, a measure roughly similar to the Italian union base wage, is equal to 9.4 percent (296 workers). Six per cent of the workforce stated having received individual monetary incentives in the last accounting year (2005) and the average amount of the premium scored about 550 Euros yearly.

As for the work, workers are to a great extent involved in interactions with clients of the organization (56%); much lower is the percentage of workers who are involved in coordination and managerial tasks (6%) or that perform exclusively manual tasks (9%). As far as the context is concerned, we consider only firm dimension, which

<sup>6</sup> The questionnaire for paid workers is omitted for reasons of space and is available from the authors upon request. [It is attached as annex to this article for blind refereeing purposes].

<sup>7</sup> The wage is recorded in the database as net take-home pay. The survey recorded monthly wages. To obtain the hourly wage we use the number of weekly contractual work hours.

equals on average of about 142,2 workers per firms, though variability across firms is extremely strong.

## THE DEPENDENT VARIABLE

We take the stated degree of satisfaction as proxy of workers' on-the-job well-being, since it expresses the ability of the organization to fulfill workers' needs concerning different job dimensions. Job satisfaction will be assumed in the multinomial analyses as the dependent variable. Average values of several sub-dimensions of job satisfaction are displayed in Table 1. We selected 13 items of satisfaction among the 26 enclosed in the original questionnaire by firstly carrying out categorical principal components analysis (CatPCA hereafter; Meulman et al., 2004) and exploratory factor analysis (EFA hereafter). As evidenced in Table 1 and in the Statistical Annex, these analyses single out two latent dimensions, that we label "Extrinsic" and "Intrinsic" satisfaction. Extrinsic satisfaction mainly refers to the features of the working environment and of the work relation with the firm such as work hours and job security. The intrinsic component, as they emerge from the considered items, approximates the idea of satisfaction with a psychological self-fulfillment in terms of professional growth, autonomy, and career.

Average satisfaction is relatively high for all the considered items apart from the wage. The items of extrinsic satisfaction show a strong homogeneity of

**Table 1.** Satisfaction with different aspects of the job

Satisfaction with ...	No of observations	Average (1-7)	Standard deviation
<b>Extrinsic aspects</b>			
Work hours	4035	5.35	1.58
Flexibility of work hours	3966	5.41	1.55
Job security	3984	5.34	1.69
Work environment	3985	5.32	1.59
Social security	3946	5.49	1.61
<b>Intrinsic aspects</b>			
Involvement in the decision-making process	3999	4.29	1.67
Transparency of procedures	4027	4.90	1.69
Recognition of his/her work by the co-operative	4019	4.81	1.70
Professional development	3971	4.64	1.59
Autonomy in decision-making	3986	5.07	1.48
Achieved and expected career prospects	3861	3.83	1.71
Self-realization	3947	4.92	1.63
Variety and creativity of the job	3991	5.20	1.49
<b>Wage satisfaction</b>	4072	3.80	1.70
<b>The job as a whole</b>	3989	5.46	1.32

Source: ICSI 2007 database. Questions D13, D21, D25, D32, and D63 in the original ICSI questionnaire.

results and high values. Stronger variability characterizes instead intrinsic satisfaction. Organizations appear particularly strong in satisfying their workforce in terms of autonomy and overall sense of self-realization, but also in terms of transparency of procedures, recognition of workers' contributions, and in the ability to guarantee professional development. More problematic are the results concerning involvement in decision-making, which does not appear to be a characterizing feature of social co-operatives. Finally, achieved and expected career prospects quite well satisfy workers. Though the degree of wage satisfaction is low, the overall degree of job satisfaction is fairly high and this shows the ability of these firms to fulfill workers' expectancies and needs on most dimensions of their activity.

It is important to notice that wage satisfaction, right from the start, is not included among the items that make up intrinsic and extrinsic satisfaction. The first reason for this choice is statistical since wage satisfaction does not fit in a clear way with neither of the two components singled out by EFA. It appears to be positioned in between intrinsic and extrinsic satisfaction.<sup>8</sup> The second reason is substantive: in our interpretation, wage satisfaction represents satisfaction with outcomes measured in monetary terms. Hence, its determinants are to be evaluated separately from the other items, which instead represent aspects of the job and of the

<sup>8</sup> In the EFA, the communality of wage satisfaction is lower than 0.4, and this is a further reason advising its exclusion (Costello and Osborne, 2005).

working environment.<sup>9</sup> In the econometric analysis, we introduce also satisfaction with the job as a whole and wage satisfaction as dependent variables in the ordered logit regressions since they represent important benchmarks for comparing the determinants of extrinsic and intrinsic satisfaction.

## THE INDEPENDENT VARIABLES

In order to inquire the nature of motivational drivers in social co-operatives, workers were asked to answer the following question: "In general, how important are the following aspects of the work for you?" Descriptive statistics in Table 2 show the complexity of drivers in worker behavior and their sketching in three latent dimensions: extrinsic, intrinsic, and altruistic motivations.<sup>10</sup> While the wage ranks only sixths on the 1 to 12 scale, workers appear mainly motivated by social relatedness and usefulness of the job, by job stability, the sharing of ideals and the search for variety and creativity on the job.<sup>11</sup>

<sup>9</sup> As shown in Table 2, the motivational items enclose instead the wage and monetary incentives.

<sup>10</sup> The three latent variables emerged as outcomes of similar procedures to the ones followed for satisfaction. Only one question was used (D54 in the original questionnaire) and the CatPCA and EFA applied.

<sup>11</sup> The number of observations concerning motivations, satisfaction and fairness in Table 2 to 4 is lower than 4134 due to missing values. We proceeded to substitute the missing values with imputed values for all the variables included in this study. This procedure allows to minimize the loss of usable observations in the econometric analysis in Section 3 (Carpita and Manisera, 2011).

**Table 2.** Job motivations items

	No. of observations	Average (1-12)	Standard deviation	Percent 10 or higher
<b>All variables measured on a 1 to 12 Likert scale</b>				
<b>Extrinsic motivations</b>				
Flexibility of working hours	3922	8.00	3.09	37.4
Wages and economic incentives	3932	8.63	3.00	49.2
Self-realization and career prospects	3911	8.38	3.12	44.8
Job stability	3950	9.52	2.79	61.9
<b>Intrinsic motivations</b>				
Autonomy, variety and creativity	3920	8.48	3.03	45.6
Job coherent with individual training	3915	7.06	3.69	33.0
Social visibility of the job	3905	7.20	3.51	32.5
Physical working environment	3927	7.44	3.69	38.4
Sharing common ideals and values	3944	8.77	3.25	52.5
<b>Altruistic and relational motivations</b>				
Helping disadvantaged people	3954	9.48	2.84	62.3
Relatedness on the job	3965	9.50	2.58	61.3
Relatedness with people outside job	3915	8.73	3.18	52.0

Source: ICSI 2007 database. Question D54 in the original ICSI questionnaire.

When analyzing the organizational environment, we first take into consideration fairness. Data are in this case grouped into distributive, procedural, and interactional fairness.<sup>12</sup> Firstly, workers were asked to evaluate their salaries as “fair” (assigning a score of 4), “unfair” (scores between 1 and 3) and “more than fair” (scores from 5 to 7). Table 3 shows that employees in social co-operatives perceive their salaries as fair when they compare them with those of colleagues and superiors, and even with market averages. When workers consider the economic possibilities of their firm, results are again posi-

tive. More problematic are the results concerning the perception of fairness relative to the individual aspects of the work activity, as when the wage is evaluated in relation to stress and tension, responsibility and the effort required on the job.

Procedural fairness is evaluated looking to processes (Table 4) and is sorted in a personal component, defined quality of treatment – which refers to the perception of fair treatment in the relations with superiors – and into a component that relates to the general working of the organization – labelled procedural fairness proper or quality of decision-making (Tyler and Blader, 2000, 2003).

As regards quality of treatment, data shows that employees give extremely good evaluations of the behaviors of their superiors. Fairness of decision-making is also perceived in a very positive way (Table 4).

<sup>12</sup> As regards fairness items, CatPCA and EFA single out some different dimensions, labelled, as said, distributive, interactional, and procedural fairness, which correspond to questions D18, D27, and D58 in the original questionnaire. The statistical analyses served in this case to confirm the initial partition of sub-dimensions.

**Table 3.** Distributive fairness

All variables measured on a 1 to 7 Likert scale	No. of observations	Average Score	Standard deviation	Percent score 1-3	Percent score 4*
<b>The wage is fair in comparison with...</b>					
Level of education	3738	3.26	1.39	46.8	37.5
Training and experience	3841	3.29	1.36	50.4	34.9
On-the-job responsibility and role	3876	3.13	1.38	56.4	31.7
Effort required	3893	3.15	1.38	56.8	31.0
Stress and tension	3850	2.99	1.44	61.8	25.6
Loyalty to the co-operative	3686	3.56	1.45	38.6	40.9

Source: ICSI 2007 database. Score 4 was labelled in the ICSI 2007 questionnaire as the “fair” score. Not surprisingly, it always represents the modal outcome. Question D18 in the original ICSI questionnaire

**Table 4.** Interactional and procedural fairness

Variables (measured on a 1 to 7 Likert scale)	No. of observations	Average	Standard deviation
<b>Quality of treatment. Your superiors...</b>			
Are kind and helpful	3886	6.15	1.23
Are sensitive to personal and family needs	3817	5.95	1.32
Are sensitive to on-the-job needs	3785	5.70	1.35
Pay attention to workers' ideas and proposals	3799	5.56	1.50
Give advice and guidance	3799	5.57	1.50
Give adequate weight to the quality of results	3806	5.78	1.38
<b>Quality of decision-making. The firm...</b>			
Gives advice and guidelines	3892	5.29	1.63
Collects complete information on worker activity	3722	5.10	1.67
Treats its workers in the same manner	3581	5.10	1.90
Has clear and shared goals	3697	5.23	1.65
Abides with what has been promised	3767	5.67	1.55
<b>Quality of decision-making, overall</b>	3885	5.90	1.39

Source: ICSI 2007 database. Question D27 and D58 in the original ICSI questionnaire.

## THE IMPACT OF MOTIVATIONS AND WORK ON THE WORKER WELL-BEING

In the analysis of data, after the transformation of ordinal data into numerical data by means of Cat-PCA, and the singling out of the latent dimensions by means of EFA, we quantify the numerical value of the original ordered Likert items by means of Rasch measurements<sup>13</sup>. This way we obtain continuous measurements of worker satisfaction and motivations, and of perceived fairness.

Organizational averages of individual motivations and fairness perception are calculated to sort out individual and organizational effects. To this end we define two centered variables for motivations and fairness, calculated as individual deviations from organizational averages and organizational deviations from overall averages:

$$RM_i^C = (RM_i - \overline{RM}_{ik}), \quad RF_i^C = (RF_i - \overline{RF}_{ik}); \quad (1)$$

where  $RM_i$  represent the three Rasch measurements for motivations, and  $RF_i$  represent the three Rasch measurements for fairness;  $i=1,2,\dots,4134$  represents individual cases, and  $k=1,2,\dots,320$  represent the organizations involved in the ICSI survey. The use of centered variables allow us to evaluate the impact on satisfaction both at the worker's level and at the co-operative's level. In the case of motivations we refer to recruitment choices and self-selection of workers, while fairness is connected with the quality of distributive patterns and procedures regulating the working of the organization.<sup>14</sup>

Coming now to the econometric analysis, the complex relations between individual and organizational dimensions are greatly simplified by assuming linear relations between job satisfaction and its determinants. We specify the following model, which is developed in a cross-section environment:

$$S_i = \alpha + \beta_1 NT_i + \beta_2 RM_i^C + \beta_3 \overline{RM}_{ik} + \beta_4 RF_i^C + \beta_5 \overline{RF}_{ik} + \beta_6 Context_{i_{prov.}} + \varepsilon_i \quad (1)$$

where  $S_i$  represents job satisfaction in its various specifications;  $NT_i$  represents the vector of the natural (e.g. gender) and acquired (e.g. education) traits of the employee and assumes that expectancies are appropriately summarized by these traits;  $RM_i^C$  and  $\overline{RM}_{ik}$  are vectors that represent individual motivations and their organizational averages. They include intrinsic, extrinsic and altruistic motivations and approximate workers' values;  $RF_i^C$  and  $\overline{RF}_{ik}$  are vectors that represent the fairness perception at the individual and organizational level. They include distributive fairness, procedural fairness (quality of decision making), and relationships with superiors (or interactional fairness); finally,  $Context_{i_{prov.}}$  is the vector including the main socio-economic features of the environment in which social co-operatives operate.

## THE DETERMINANTS OF WORKER WELL-BEING

The econometric analysis is implemented in a cross section environment by means of OLS and ordered logit estimates both of which allow for robust standard errors to check for heteroskedasticity of the error term. We also cluster standard errors at the organization level to depariate estimates from the effect of intra-class correlation. In the analysis we use the three groups of Rasch variables just described. We add the socio-demographic and organizational variables in Table A1 in order to control for the different characteristics of workers and for firm dimension. Finally, we introduce some contextual variables, referred to the levels of unemployment and income at the provincial level in Italy. This way we are able to depariate our estimates from contextual influences and, at the same time, we derive a proxy for evaluating the relevance of the socio-economic context in influencing workers' expectancies and well-being.

We produce three different set of models in which we add one at a time the groups of regressors just described. Satisfaction is used as outcome variable representing the subjective, self-reported degree of worker on-the-job well-being. Beyond the two Rasch measures for satisfaction used as dependent variables to obtain OLS estimates, we use also the ordered items concerning overall job satisfaction and wage satisfaction to obtain ordered logit estimates. Following Gelman (2008), to allow the comparison between the estimated coefficients in the presence of differing measurement scales and dummy variables, all the independent variables are rescaled by subtracting the mean and dividing by two standard deviations (SD hereafter),

<sup>13</sup> Cfr. The Statistical Annex for a technical description of the procedures followed to obtain the Rasch measurements using the Rating Scale Model (Wright and Masters, 1982; Carpita and Golia, 2008).

<sup>14</sup> The centered variables and the organizational averages used in the econometric analysis are orthogonal: this specification, known as the Cronbach model, allows to obtain the decomposition of the total effect on the dependent variable in within and between effects (Kreft and De Leeuw, 1988).

so that a unit change in the rescaled predictor can be interpreted as a change from 1sd below the mean to 1sd above the mean. The Rasch dependent variables are standardized using the usual transformation, while the items of satisfaction in the ordered logit estimates are left in their initial scale. The estimated regression coefficient for the rescaled independent variables corresponds to the job satisfaction effect measured in standard deviation units and at the mean levels of the other regressors of a variation from low (one SD below the mean) to high (one AD above the mean) in the motivations and fairness perceptions.<sup>15</sup>

The first model (Table 5) considers only the socio-demographic and context variables.<sup>16</sup> The results of this exercise represent an important benchmark for the understanding of how the model is modified by adding new variables to our analysis. The first model can be algebraically represented as follows:

$$S_i = \alpha + \beta_1 NT_i + \beta_2 Context_{iPr ov.} + \varepsilon_i \quad (3)$$

Results concerning socio-demographic variables broadly confirm what is already found in the literature and therefore it seems that workers in the general interest services sector do not significantly distinguish from other workers in their expectancies. Nonetheless, our models for the first time investigate the different impact of individual traits on diverse sub-dimensions of satisfaction. Job satisfaction increases with age, but this is true especially for the extrinsic component of satisfaction, while wage satisfaction is unaffected.

Women are generally more satisfied than men for their job as a whole, for the extrinsic and the monetary components and, in turn, these results are likely to be connected with the lower expectancies of women on the labor market, typically characterized for them by lower salaries and precarious positions. Educated workers, above all university graduates, are less satisfied and the effect is strongest in the case of the monetary satisfaction, confirming the hypothesis on highest primary needs and monetary expectancies. Part time workers are only less satisfied than full time with the intrinsic component of satisfaction, and this results is particularly consistent when part time is unilaterally

imposed by the organization. Open-end contracts appear to exert a negative impact on intrinsic satisfaction, probably because of a phenomenon of burn out of intrinsic motivations. On the other hand, extrinsic satisfaction is enhanced by long term contractual relationships, probably because of the possibility to enjoy a quieter working environment. The hourly wage is unrelated with overall job satisfaction, while it shows a strong positive linkage, as expected, with wage satisfaction and also with intrinsic satisfaction.<sup>17</sup> This later result is partially due to the higher satisfaction for achieved career included in the sub-dimension of intrinsic satisfaction and seems explained by the perception of wage as a reward for professional growth and as a perception of psychological recognition of the self-realization of workers. The presence of individual monetary incentives does not affect satisfaction with the job as a whole, but it shows a general positive relation with other sub-dimensions of satisfaction in both its intrinsic and extrinsic components. Furthermore, as expected, it shows a positive relation also with wage satisfaction. When the typology of tasks performed by workers is considered, the interaction with clients induces a general reduction in the level of satisfaction, both intrinsic and extrinsic. This evidence is likely to be related to the difficulties linked to the delivery of non-standardized and relational services such as social services, which can engender a high degree of stress in the operators. Manual workers are instead more satisfied than the others about their pay, due to their low expectancies, while workers carrying out coordination tasks are more intrinsically satisfied.

As evidenced by the literature, contextual variables evidence that, comparison income, which in our case is specified as the provincial income, is negatively related to worker satisfaction, while it does not appear to have a significant relation with wage satisfaction (for example, McBride, 2010; Senik, 2009). Hence, while wage satisfaction is influenced by socio-demographic and contractual features, the comparison income appears to have a

<sup>15</sup> Note that this linear transformation of the variables does not affect the fit of the regression model ( $R^2$  and  $t$ -statistic)

<sup>16</sup> We also included in all estimates the controls for the typology of services produced and for the typology of clients served. These coefficients will not be displayed for reasons of space and because most of them are not statistically significant.

<sup>17</sup> The relation between the wage and satisfaction is likely to be affected by endogeneity problems, since a higher degree of satisfaction can be the result of a feeling of achievement and recognition due to higher wages and incentives, but, at one and the same time, it is also possible that workers more satisfied with their job become more productive over time, and, for this reason, enjoy higher wages and incentives in the medium to long run (Becchetti et al., 2009). An in depth analysis of endogeneity issues is not among the objectives of this paper. Hence, while we evidence the positive statistical connection between the monetary variables and intrinsic satisfaction, we will not single out the most correct among the above two interpretation, leaving this problem to future research.

negative impact on worker overall well-being since it afflicts general expectancies of workers. The unemployment rate works exactly in the opposite direction as the comparison income and for similar reasons. However, this time, the strongest impact is exerted on wage satisfaction. Finally, the activity

rate, shows a positive relation with satisfaction in all its specifications. Our results appear to be underpinned by a positive relation between a broader definition of societal wellbeing and worker satisfaction.

**Table 5.** The determinants of worker satisfaction: socio-demographic and contractual features, and context

		I	II	III	IV
		Intrinsic satisfaction OLS Coeff.	Extrinsic satisfaction OLS Coeff.	Job satisfaction Ologit Odds R.	Wage satisfaction Ologit Odds R.
4105 observation, 320 clusters		(t)	(t)	(z)	(z)
<b>Socio demographic features of the workforce</b>					
Age		0.059 (1.57)	<b>0.188</b> <b>(5.24)</b>	<b>1.308</b> <b>(3.85)</b>	1.115 (1.55)
Gender		0.052 (1.42)	<b>0.095</b> <b>2.75</b>	<b>1.326</b> <b>(4.15)</b>	<b>1.184</b> <b>(2.56)</b>
Tenure		0.027 (0.62)	-0.013 (-0.30)	<i>0.887</i> <b>(-1.85)</b>	0.925 (-1.06)
Married with children		-0.031 (-1.00)	-0.026 (-0.86)	1.039 (0.64)	1.085 (1.31)
Education secondary school		0.030 (0.80)	0.034 (0.92)	1.008 (0.11)	1.003 (0.04)
Education university degree		-0.005 (-0.11)	-0.056 (-1.42)	<b>0.849</b> <b>(-2.18)</b>	<b>0.746</b> <b>(-3.50)</b>
Open-end contract		<i>-0.074</i> <i>(-1.92)</i>	<b>0.135</b> <b>(3.57)</b>	0.942 (-0.87)	<b>0.793</b> <b>(-3.00)</b>
Part-time		<b>-0.088</b> <b>(-2.37)</b>	0.040 (1.01)	0.873 (-1.94)	<i>1.135</i> <i>(1.79)</i>
Forced part-time		<b>-0.270</b> <b>(-6.86)</b>	<b>-0.186</b> <b>(-4.77)</b>	<b>0.653</b> <b>(-6.09)</b>	<b>0.630</b> <b>(-5.75)</b>
Hourly wage		<b>0.189</b> <b>(4.94)</b>	0.051 (1.43)	1.043 (0.67)	<b>1.595</b> <b>(4.09)</b>
Use of individual monetary incentives		<b>0.137</b> <b>(3.13)</b>	<b>0.101</b> <b>(2.20)</b>	1.046 (0.78)	<b>1.164</b> <b>(2.27)</b>
Works with clients		<b>-0.112</b> <b>(-3.00)</b>	<b>-0.132</b> <b>(-3.50)</b>	0.932 (-0.94)	<i>0.880</i> <i>(-1.86)</i>
Coordination		<b>0.088</b> <b>(2.78)</b>	-0.010 (-0.34)	1.086 (1.48)	<i>1.118</i> <i>(1.75)</i>
Manual worker		-0.017 (-0.46)	0.039 (1.04)	1.011 (0.14)	<b>1.211</b> <b>(3.02)</b>
<b>Contextual variables</b>					
Log of provincial income		<b>-0.194</b> <b>(-2.96)</b>	-0.075 (-1.14)	<b>0.713</b> <b>(-3.53)</b>	0.924 (-0.78)
Unemployment rate		<b>0.130</b> <b>(2.20)</b>	0.037 (0.62)	1.067 (0.66)	<b>1.720</b> <b>(5.27)</b>
Activity rate		0.019 (1.27)	<b>0.031</b> <b>(2.50)</b>	<b>1.058</b> <b>(2.29)</b>	<b>1.067</b> <b>(2.83)</b>
F(27, 319)	Wald Chi2	8.61	10.59	148.76	256.24
R-squared	Pseudo R2	0.077	0.060	0.0140	0.0276
Root MSE	Log pseudolikelihood	0.964	0.973	-6724.0	-7408.9

\*Legend: Coefficients in bold statistically significant at least at the 5% level. Coefficients statistically significant at the 10% level in italics.

The second model introduces an active role for motivations in influencing worker well-being.<sup>18</sup> It can be represented in the following way:

$$S_i = \alpha + \beta_1 NT_i + \beta_2 Context_{iProv.} + \epsilon_i \quad (4)$$

Where the added terms  $RM_i^c$  and  $\overline{RM}_{ik}$  represent respectively the vectors of the Rasch variables concerning motivations at the individual level (individual deviations from organizational averages) and at the organizational level (organizational deviation from overall means). The introduction of motivational variables also represents a way to deparure the impact of organizational features on worker wellbeing from the influences of pre-existing and deeply rooted attitudes. In this sense, motivations are used to control for worker psychological het-

erogeneity. Though we are unable to demonstrate that the results concerning satisfaction in socially oriented firms can be generalized and exported to other sectors of activity and to other organizational forms, a high degree of reliability of our results is likely to be guaranteed by the possibility to control for motivational heterogeneity.

Our findings show that workers who exert stronger intrinsic, altruistic, and relational motivations enjoy also a higher level of well-being. This testifies the crucial relevance of the intrinsic interest in the activity carried out as a determinant of well-being. The impact of intrinsic motivations on the intrinsic component of satisfaction is twice as big as the impact on the extrinsic component of satisfaction. The strongest effects is found, however, in the case of altruistic and relational motivations, whose impact on worker satisfaction by far overcomes the effect of intrinsic motivations. The same effects are found when the organizational average is considered. Organizations hosting a higher average degree of intrinsic and altruistic motivations host also a more satisfied workforce. Individual effects are combined with organizational influences.

<sup>18</sup> For the sake of brevity we will comment only on the variables added relative to the previous model, leaving additional comparisons to the reader's attention. For the same reason, in Table 6 and 7 we do not include the estimation results concerning contextual variables (provincial income, unemployment and activity rate). However, they were included in the estimates and are available upon request by the authors.

**Table 6.** The determinants of worker satisfaction: motivations

	I Intrinsic satisfaction OLS Coeff.	II Extrinsic satisfaction OLS Coeff.	III Job satisfaction Ologit Odds R.	IV Wage satisfaction Ologit Odds R.
4105 observation, 320 clusters	(t)	(t)	(z)	(z)
<i>Socio demographic features of the workforce</i>				
Age	0.035 (0.94)	<b>0.173</b> <b>(4.76)</b>	<b>1.254</b> <b>(3.12)</b>	1.095 (1.27)
Gender	0.021 (0.58)	0.063 (1.82)	<b>1.205</b> <b>(2.67)</b>	<b>1.169</b> <b>(2.33)</b>
Tenure	0.020 (0.47)	-0.017 (-0.38)	<b>0.865</b> <b>(-2.03)</b>	0.916 (-1.18)
Married with children	-0.037 (-1.21)	-0.029 (-0.99)	1.034 (0.57)	1.078 (1.21)
Education secondary school	0.010 (0.29)	0.017 (0.47)	0.952 (-0.71)	0.981 (-0.26)
Education university degree	-0.002 (-0.06)	-0.052 (-1.33)	<b>0.852</b> <b>(-2.10)</b>	<b>0.737</b> <b>(-3.63)</b>
Open-end contract	-0.063 (-1.71)	<b>0.139</b> <b>(3.78)</b>	0.954 (-0.72)	0.800 (-2.84)
Part-time	<b>-0.078</b> <b>(-2.11)</b>	0.050 (1.26)	0.908 (-1.38)	1.140 (1.81)
Forced part-time	<b>-0.261</b> <b>(-6.85)</b>	<b>-0.180</b> <b>(-4.63)</b>	<b>0.664</b> <b>(-6.00)</b>	<b>0.639</b> <b>(-5.54)</b>

Hourly wage	<b>0.199</b> ( <b>5.07</b> )	<i>0.061</i> ( <i>1.67</i> )	1.075 (1.05)	<b>1.617</b> ( <b>4.19</b> )
Use of individual monetary incentives	0.126 (3.12)	0.092 (2.20)	1.023 (0.41)	<b>1.169</b> ( <b>2.36</b> )
Works with clients	<b>-0.126</b> ( <b>-3.42</b> )	<b>-0.147</b> ( <b>-3.90</b> )	0.893 (-1.56)	<i>0.875</i> ( <i>-1.95</i> )
Coordination	<b>0.082</b> ( <b>2.66</b> )	-0.014 (-0.47)	1.072 (1.25)	<i>1.110</i> ( <i>1.65</i> )
Manual worker	-0.008 (-0.23)	0.044 (1.20)	1.041 (0.53)	<b>1.227</b> ( <b>3.20</b> )
<i>Contextual variables</i>				
Log of provincial income	<b>-0.168</b> ( <b>-2.67</b> )	-0.049 (-0.75)	<b>0.757</b> ( <b>-2.96</b> )	0.936 (-0.66)
Unemployment rate	<b>0.142</b> ( <b>2.39</b> )	0.055 (0.91)	1.124 (1.12)	<b>1.687</b> ( <b>4.78</b> )
Activity rate	0.013 (1.02)	<b>0.026</b> ( <b>2.30</b> )	<i>1.042</i> ( <i>1.84</i> )	<b>1.055</b> ( <b>2.26</b> )
<i>Motivations</i>				
Extrinsic motivation	<b>-0.153</b> ( <b>-4.50</b> )	-0.044 (-1.23)	<b>0.728</b> ( <b>-4.72</b> )	<b>0.727</b> ( <b>-4.33</b> )
Intrinsic motivation	<b>0.201</b> ( <b>5.36</b> )	<b>0.111</b> ( <b>3.00</b> )	<b>1.401</b> ( <b>4.59</b> )	<b>1.180</b> ( <b>2.29</b> )
Altruistic and relational motivation	<b>0.174</b> ( <b>5.81</b> )	<b>0.147</b> ( <b>4.41</b> )	<b>1.955</b> ( <b>10.09</b> )	<b>1.228</b> ( <b>3.33</b> )
Extrinsic motivation (average org.)	<b>-0.216</b> ( <b>-3.63</b> )	<b>-0.158</b> ( <b>-2.32</b> )	<b>0.688</b> ( <b>-3.22</b> )	<b>0.698</b> ( <b>-2.55</b> )
Intrinsic motivation (average org.)	<b>0.183</b> ( <b>2.77</b> )	<i>0.143</i> ( <i>1.95</i> )	<b>1.274</b> ( <b>1.96</b> )	1.136 (0.84)
Altruistic motivation (average org.)	<b>0.148</b> ( <b>2.55</b> )	<b>0.149</b> ( <b>2.65</b> )	<b>1.680</b> ( <b>4.49</b> )	<i>1.212</i> ( <i>1.78</i> )
F(27, 319)	Wald Chi2	12.41	12.41	466.86
R-squared	Pseudo R2	0.108	0.079	0.0343
Root MSE	Log pseudolikelihood	0.948	0.964	-6194.0
				-7378.7

\*Legend: Coefficients in bold statistically significant at least at the 5% level. Coefficients statistically significant at the 10% level in italics.

Opposite results are found in the case of extrinsic motivations, which reduce worker well-being. Workers driven prevalently by the desire to obtain higher wages, career advancements and employment protection are likely to be frustrated by actual achievement and to report a low level of on-the-job well-being. The effect in the case is similar for organizational averages and at the individual level, featuring a more important role for organizational effects in the case of extrinsic motivations than in the case of intrinsic and altruistic motivations.

The third model is the most complete one (we repeat equation 1 here below), given the introduction of fairness concerns as determinants of worker well-being. Its algebraic representation introduces the vectors representing the individual deviations of the Rasch measurement of fairness perceptions relative to the organizational mean,  $RF_i^c$ , and the deviation of the organizational averages relative to the overall mean,  $\overline{RF}_{ik}$ :

$$S_i = \alpha + \beta_1 NT_i + \beta_2 RM_i^c + \beta_3 \overline{RM}_{ik} + \beta_4 RF_i^c + \beta_5 \overline{RF}_{ik} + \beta_6 Context_{prov.} + \varepsilon_i \quad (2)$$

When the variables representing fairness are introduced, we confirm the results already found in past studies (Helliwell and Huang, 2010; Tortia, 2008), which identify in the search for fair outcomes and procedures the most relevant determinant of worker well-being inside the organization. Conversely, the perception of unfair distribution of outcomes, or of unfair treatment and quality of decision-making appear to undermine workers' on-the-job well-being. Among the considered variable, good relations with superiors emerge as the most important determinant of worker well-being. Their impact is strongest in the case of intrinsic satisfaction. Hence it is strictly linked with workers' achievement and self-realization. Conversely, it appears weakest

in the case of wage satisfaction. An improvement from low to high in the relations with superiors appears to imply a high variation in intrinsic satisfaction, 64 per cent of one standard deviation of intrinsic satisfaction, which corresponds to a value increase of 1.11, or to the 18.5 per cent of the total range of variation of intrinsic satisfaction. Similar results are found in the case of procedural fairness, though the percent increase shrinks to 51 per

cent, corresponding to a value increase of 0.88 and to 14.7 per cent of the range of variation of intrinsic satisfaction. As expected, distributive fairness exerts a strong impact only on wage satisfaction. An increase from low to high (as defined above) in procedural fairness makes the odds of being more satisfied with the wage increase by a factor equal to 6.7. Comparatively, it is clear the these impacts are bigger than the impact of any of the motivational items on any of the specifications of satisfaction.

**Table 7.** The determinants of worker satisfaction: fairness

	I Intrinsic satisfaction OLS Coeff.	II Extrinsic satisfaction OLS Coeff.	III Job satisfaction Ologit Odds R.	IV Wage satisfaction Ologit Odds R.
4105 observation, 320 clusters	(t)	(t)	(z)	(z)
<i>Socio demographic features of the workforce</i>				
Age	<b>-0.107</b> <b>(-3.99)</b>	<b>0.058</b> <b>(1.96)</b>	1.043 (0.58)	0.883 (-1.86)
Gender	-0.041 (-1.49)	0.022 (0.75)	<b>1.143</b> <b>(1.97)</b>	<b>1.237</b> <b>(3.55)</b>
Tenure	<b>0.146</b> <b>(4.64)</b>	<b>0.086</b> <b>(2.33)</b>	1.002 (0.03)	<b>1.187</b> <b>(2.61)</b>
Married with children	-0.033 (-1.40)	-0.031 (-1.22)	1.030 (0.51)	1.035 (0.56)
Education secondary school	0.027 (1.00)	0.033 (1.01)	0.964 (-0.52)	1.046 (0.66)
Education university degree	0.053 (1.83)	0.009 (0.28)	0.908 (-1.41)	0.937 (-0.86)
Open-end contract	0.014 (0.56)	<b>0.198</b> <b>(6.38)</b>	1.075 (1.11)	0.918 (-1.16)
Part-time	<b>-0.109</b> <b>(-3.76)</b>	0.023 (0.71)	<b>0.845</b> <b>(-2.30)</b>	0.975 (-0.37)
Forced part-time	<b>-0.131</b> <b>(-5.43)</b>	<b>-0.080</b> <b>(-2.38)</b>	<b>0.766</b> <b>(-3.89)</b>	<b>0.700</b> <b>(-4.69)</b>
Hourly wage	<b>0.144</b> <b>(4.62)</b>	0.012 (0.36)	1.022 (0.29)	<b>1.487</b> <b>(3.38)</b>
Use of individual monetary incentives	<b>0.113</b> <b>(4.54)</b>	<b>0.081</b> <b>(2.33)</b>	1.014 (0.28)	<b>1.149</b> <b>(2.11)</b>
Works with clients	<b>-0.098</b> <b>(-3.28)</b>	<b>-0.126</b> <b>(-3.75)</b>	0.936 (-0.92)	<b>0.876</b> <b>(-2.01)</b>
Coordination	<b>0.073</b> <b>(3.03)</b>	-0.021 (-0.91)	1.077 (1.26)	1.073 (1.32)
Manual worker	<b>-0.083</b> <b>(-2.69)</b>	-0.021 (-0.68)	0.950 (-0.68)	1.041 (0.59)
<i>Contextual variables</i>				
Log of provincial income	<b>-0.089</b> <b>(-2.34)</b>	0.009 (0.20)	<b>0.804</b> <b>(-2.33)</b>	1.018 0.17)
Unemployment rate	-0.098 (-1.93)	<b>-0.160</b> <b>(-2.95)</b>	0.856 (-1.50)	1.045 0.40)
Activity rate	0.004	0.018	1.045	1.036

		(0.47)	(1.78)	(1.95)	1.67)
<i>Motivations</i>					
Extrinsic motivation		<b>-0.087</b> <b>(-3.19)</b>	0.009 (0.28)	<b>0.785</b> <b>(3.49)</b>	<b>0.799</b> <b>(-3.09)</b>
Intrinsic motivation		<b>0.095</b> <b>(3.15)</b>	0.029 (0.89)	<b>1.201</b> <b>(2.46)</b>	1.052 (0.72)
Altruistic and relational motivation		0.018 (0.76)	0.032 (1.07)	<b>1.633</b> <b>(7.41)</b>	1.104 (1.57)
Extrinsic motivation (average org.)		-0.078 (-1.91)	-0.049 (-0.79)	<b>0.770</b> <b>(-2.24)</b>	0.844 (-1.61)
Intrinsic motivation (average org.)		0.067 (1.41)	0.060 (0.89)	1.119 (0.85)	1.076 (0.63)
Altruistic motivation (average org.)		0.008 (0.18)	0.059 (1.28)	<b>1.546</b> <b>(3.68)</b>	1.164 (1.54)
<i>Fairness</i>					
Distributive fairness		<b>0.236</b> <b>(8.94)</b>	<b>0.230</b> <b>(8.57)</b>	<b>1.543</b> <b>(5.89)</b>	<b>6.694</b> <b>(25.65)</b>
Procedural fairness		<b>0.509</b> <b>(14.39)</b>	<b>0.403</b> <b>(11.52)</b>	<b>3.072</b> <b>(13.27)</b>	<b>1.499</b> <b>(5.64)</b>
Relationships with superiors		<b>0.643</b> <b>(22.54)</b>	<b>0.439</b> <b>(13.18)</b>	<b>2.813</b> <b>(12.93)</b>	<b>1.541</b> <b>(5.77)</b>
Distributive fairness (average org.)		<b>0.158</b> <b>(3.95)</b>	<b>0.219</b> <b>(4.13)</b>	1.185 (1.45)	<b>4.261</b> <b>(14.50)</b>
Procedural fairness (average org.)		<b>0.398</b> <b>(7.70)</b>	<b>0.330</b> <b>(4.12)</b>	<b>1.804</b> <b>(5.10)</b>	<b>1.461</b> <b>(2.77)</b>
Relationships with superiors (av. org.)		<b>0.327</b> <b>(7.41)</b>	<b>0.186</b> <b>(3.46)</b>	<b>1.403</b> <b>(3.06)</b>	1.059 (0.56)
F(27, 319)	Wald Chi2	66.79	41.87	1173.54	1619.50
R-squared	Pseudo R2	0.468	0.289	0.117	0.134
Root MSE	Log pseudolikelihood	0.733	0.848	-5665.3	-6600.5

\*Legend: Coefficients in bold statistically significant at least at the 5% level. Coefficients statistically significant at the 10% level in italics.

In the case of organizational averages the strong impact of distributive fairness on wage satisfaction is confirmed, as it amounts to about two thirds of the individual effect. It is to be noted, instead, that the results concerning the quality of decision making and the quality of treatment are reversed relative to the case of individual effects. This time procedural fairness exerts a slightly stronger impact than interactional fairness. This confirms that procedural fairness is perceived as a more stable and formal feature of the organizational environment. Its collective relevance equals about one half of the individual impact, while this relative importance shrinks to one third for interactional fairness. The comparisons between the results concerning distributive and procedural aspects clearly support a sharp distinction between theoretical perspectives that focus on monetary outcomes only and perspectives that consider instead also processes and intrinsic aspects of well-being. The results concerning average values also clarify that

organizational processes are likely to likely to explain an important part of individual satisfaction. Their effect appears to derive from the habituation of the individual to the quality of organizational processes. Though these processes are singled out in a rough way, by means of averages of individual perceptions, the results concerning organizational averages result in a coherent picture, which reinforces the relevance of organizational processes over and above individual perceptions and behavior. Our results also show that, when the role of fairness concerns in the determination of worker well-being is added, the fit of the econometric models increases substantially. This is true most of all in the case of intrinsic satisfaction, for which the introduction of fairness concerns increases the explanatory potential of the model from 10 per cent to almost 50 per cent of the total variability of data. Similar results, though weaker, are found for the extrinsic component of satisfaction. Hence the results reveal a substantial role for fairness

perceptions in the determination of worker satisfaction. Finally, as expected given the positive and significant correlation between motivations and fairness concerns,<sup>19</sup> the explicit consideration of fairness concerns dampens substantially the role of motivations, which remain relevant only in the case of intrinsic and overall satisfaction, while it is excluded for extrinsic and wage satisfaction. Our result clearly single out only a role for motivational drivers only in influencing the intrinsic component of worker well-being.<sup>20</sup>

## CONCLUDING REMARKS

The present contribution has been devoted to the analysis of the interplay between worker well-being, worker motivations and some organizational dimensions in the Italian social service sector. We took into consideration one specific typology of organizational form, the social co-operative, which is understood as a specific type of not-for-profit, so-

cially oriented enterprise delivering social services and characterized by a mutual benefit governance structure. Econometric results drawn on survey data show that worker well-being is crucially influenced by motivational drives and fairness perceptions. Motivational factors emerge as preconditions able to enhance or dampen individual well-being. However, the most relevant factors influencing worker well-being are identified in the interplay between the individual and the organizational dimensions in terms of distributive and procedural fairness, and in terms of the quality of the relations between the workers and their superiors. Also, monetary incentives and the wage, whose relevance was denied by some published studies, show a positive linkage with the intrinsic component of satisfaction, which is understood in terms of self-fulfillment and professional achievement. The richness of the database allows a comprehensive and in depth picture to be taken of the most important factors influencing well-being on-the-job and this work has represented only the first comprehensive step leading to more in depth and focused analyses.

<sup>19</sup> Correlation coefficients available upon request from the authors.

<sup>20</sup> We are aware of the potentially serious problems arising from endogeneity, i.e. correlation of the regressors with the error term. However, given the complexity of our model, an in depth analysis of endogeneity would be extremely cumbersome in this paper and, for this reason, is postponed to future and more focused work. We will just observe that, at the substantive level, worker well-being can be taken as one of the main outcomes of the firm operation (Stiglitz, 2009) beside output, productivity and service quality. It is also clear that, in the interaction between the worker and the organizational structure, the influence of the latter on the behavioral predispositions of the former cannot be excluded (Hodgson, 2006) and are likely to be substantial. This is also confirmed by the high statistical significance of the organizational averages of the Rasch measurements. Second, the statistical significance of coefficients central to our analysis is so strong, and it is likely to be found in conjunction with the underlying causal effects, even if, in principle, other omitted variables or reverse causality could change the picture in a relevant way. Third, some of the variables that are central to our model, such as procedural fairness, are likely to represent stable features of the organization, hence to be quite independent of the interaction between the worker and the organization. Indeed, workers were asked to evaluate the behavior of the co-operative in terms of quality of decision-making independently of their personal position. Though it is still possible that the "warm glow" of the organization is better perceived by more satisfied workers, we do not expect problems of endogeneity to be severe at least in the case of procedural fairness. Besides, the whole set of our results appear coherent with each other and with other published analysis (Helliwell and Huang, 2010). Finally, on methodological grounds, the richness of the database allows the introduction of a long list of controls reducing the omitted variable bias for example in terms of self-selection of differently motivated workers.

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## APPENDIX A – DESCRIPTIVES

**Table A.1.** Socio-demographic features and contractual position of the workforce

Variables	No. of observations	Average	Std deviation	Minimum	Maximum
Worker age	4134	37.40	9.01	17	73
Tenure	4134	5.70	5.47	0	36
Gender (1 = female)*	4134	0.74	0.44		
Married with children*	4134	0.59	0.49		
Education: secondary school*	4134	0.52	0.50		
Education: three years university degree*	4134	0.11	0.32		
Education: five years university degree or higher*	4134	0.17	0.38		
Open end contract*	4134	0.81	0.39		
Part-time*	4134	0.32	0.47		
Forced Part-time*	4134	0.12	0.32		
Hourly wage plus fringe benefits	3434	6.61	2.36	1.36	46.51
Individual monetary premium received last year*	4105	0.06	0.23		
Yearly amount of monetary premium	4134	77.20	285.34	0	6000
Job task: relationships with clients*	4134	0.56	0.50		
Job task: coordination*	4134	0.06	0.23		
Job task: manual worker*	4134	0.09	0.29		
Size of the firm (no. of employees)	4097	140.63	238.48	1	1702

Source: ICSI 2007 database. \* Dummy variable

# HIGH-TRUST CULTURE, THE DECISIVE BUT ELUSIVE CONTEXT OF SHARED CO-OPERATIVE LEADERSHIPS

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**Keywords:** high/low-trust cultures, servant transformational leadership, involved/detached managers, *phronesis* (practical wisdom).

## INTRODUCTION

*'Trust is the result of 'right', 'just', and 'fair' behavior--that is, morally correct decisions and actions--that recognize and protect the rights and interests of others' (Hosmer, 1995: 399).*

Having just and fair opportunities to contribute their faculties for problem-solving, decision-making and innovating, independent of their specific role and hierarchic position, is a major interest and prime right of co-operative members, especially talented, educated, and expert critical thinkers and innovators who seek better co-operative functioning. Yet this is also a prime interest of the co-operative as a competitor in markets that must be efficient, effective, and adaptive to environments by drawing in and nurturing critical thinkers and innovative talents whose intellectual capital (Stewart, 1997) helps achieve these aims. If managers ignore or suppress such contributions in order to maintain supremacy, a co-operative may suffer painful brain-drain and loss of such capital when innovative talents either exit or end their involvement in deliberations (Am'ad and Palgi, 1986; Author, 1987, 2008. E.g., Fleming and Spicer, 2003; Rifkin and Harrar, 1988: Ch. 10; Rosenblatt and Sheaffer, 2001). The authority of a manager is legitimized by her/his supposedly superior capability to manage and lead, but co-operative ethos means members have the right and duty beyond fulfilling their jobs and voting on managerial proposals to contribute to bettering them (In order to ease reading masculine wording will be used while equally referring to women). Ideally they should share

leadership by active participation in deliberations, proposing better strategies, policies and solutions than those used or proposed by managers. But if many of the manager's proposals are rejected in favor of members' alternative proposals and the latter succeed, his authority diminishes and may lead to his succession. Thus, though formally he should encourage member contributions, consider them justly and fairly and faithfully implement plausible ones which the majority endorses, structurally he is hindered from these.

Co-operative and kibbutz social research did not study this conundrum as it rarely alluded to leaders' efforts to establish and maintain personal authority when taking charge (e.g., Gabbaro, 1987; Watkins, 2003). This research focused on maintaining egalitarianism and democracy in co-operatives and kibbutzim (pl. of kibbutz) despite oligarchic and conservative tendencies following success and growth (Hernandez, 2006; Osterberg and Nilsson, 2009; Russell, 1995; Author, 2001, 2008; Stryjan, 1989; Varman and Chakrabarti, 2004). It did not examine whether leaders' choice of control strategy in order to establish personal authority enhanced these tendencies. Is a leader's personal authority an outcome of gaining members' trust and support by democratic leading that uses fairly and justly their contributions? Or does he dominate by using seductive/coercive controls that accentuate his personal leadership and impact egalitarianism and democracy negatively? What explains a leader's choice of trustful control practices that enhance members' sharing leadership by contributing their faculties? How much shared co-operative leadership depends on his choosing trustful practices and caring to enhance high-trust culture?

## LEADERSHIP RESEARCH AND THE CHOICE OF TRUST OR COERCION/ SEDUCTION

Leadership research was dominated by psychologists (Gleeson and Knights, 2008: 50), who until recently mostly explained the emergence and dominance of leaders by their unique competencies. But recently the 'practice turn' in this research has challenged the 'competency paradigm' (Bolden and Gosling, 2006; Carroll et al., 2008), exposing what is known by other disciplines: that often mediocre people or even incompetents have been chosen leaders and have held power for long periods by various self-serving, low-moral practices that negated the egalitarian ethos. Co-operative democracy may encourage benign strategies to become a leader, but one's democratic choosing ensures neither having the know-how and capability for office nor success by practices that accord egalitarian and democratic ethos (Hernandez, 2006; Kandathil and Varman, 2007; Kasmir, 1996; Russell, 1995). Likewise histories and ethnographies of kibbutzim and inter-kibbutz co-operatives have exposed many cases of leaders using low-moral practices and Machiavellianism by which they became dominant and led autocratically, becoming oligarchs for good (Beilin, 1984; Kafkafi, 1992; Kressel, 1974, 1983; Kynan, 1989; Author, 1995a, 2001, 2008; Shure, 2001; Vilan, 1993), much like many capitalist firms (e.g., Dalton, 1959; Jay, 1969; Rhode, 2006; Stein, 2001).

According to Gabbaro (1987) after taking charge of firms, leaders aimed at establishing personal authority by introducing changes and innovations, seeking real or imagined success that would prove that they had been the right choice for office. If a leader clearly fails, he is replaced, but if he achieves success or an image of it, this attracts loyal supporters. He may trustfully consult and openly share know-how, knowledge, and expertise with them, aiming at using their intellectual capital for problem-solving, decision-making, and innovating (Geneen, 1984: 88-107; Guest, 1962; Stewart, 1997: Ch. 6), or he may turn them into a clique of loyal clients whose support for his policies, decisions, and personal interests is gained in return for privileges, promotion, and serving their other personal interests, while other employees are coerced into doing their jobs by punitive means (Dalton, 1959; Rhode, 2006: 57-110; Author, 1987: Ch. 11; 2008: Ch. 8, 15).

A leader may prefer the latter choice of seductive/coercive means as they are simpler, their impact is clearer and more immediate, and their use proves his supremacy and assures his self-worth (Kipnis, 1976; Kets De Vries, 1993), more than the

long, complex, and hazardous process of leading by trust relations that require consensus on aims, means, and allocation of duties and rewards (Fox, 1974; Author, 2008: Ch. 16). When a leader chooses seduction/ coercion, it breeds low-trust relations as each employee uses his power, know-how, and other intangible resources such as capitals (Bourdieu, 1977) to further personal aims, like the leader, engendering a low-trust culture (Dore, 1973; Fox, 1974). Such cultures are common: Gallup polls over 25 years, of some 80,000 managers, found only a few very effective ones who used unconventional high-trust practices (Buckingham and Coffman, 1999: 16, 26, 38-9, 83, 171). Low-trust cultures are often led immorally by insincerity, dishonesty, practices that negate declared policies, camouflage, subterfuges, scapegoating, and Machiavellianism which elicit workers' distrustful reactions (Collinson, 2005a; Dalton, 1959; Jay, 1969; Maccoby, 1976; O'Mahoney, 2005; Rhode, 2006; Roy, 1952).

On the other hand, the strategy of nurturing and consulting supporters engenders a high-trust climate that may turn into a high-trust culture if its practices are emulated by other power-holders such as experts and operators with crucial information and/or control of uncertainty zones (Collins and Evens, 2007; Crozier, 1964; Mechanic, 1962). In high-trust cultures employees contribute voluntarily their intangible resources for problem-solving and innovation (Guest, 1962; Ouchi, 1981; Snell, 2001; Zand, 1972), as against low-trust cultures in which intangible resources are bargaining chips, serving self-interest (Roy, 1952). In high-trust cultures, high-moral managers encourage employees' contributions towards better decisions and innovation as managers' success is measured by their unit success, rather than by their personal contributions to it. Hence, it little bothers a manager whether he or a subordinate proposed a successful innovation, since in such a culture his position is legitimized by maintaining employees trust in him and in the firm's leaders, assuring obedience, commitment to tasks, and successful problem-solving and innovating (Ardichivili, 2008; DeTienne et al., 2004; Dore, 1973; Ouchi, 1981; Semler, 1993; Author, 2008). In such cultures employees OCB (organizational citizenship behavior), performing beyond formal roles, enhances efficiency and effectiveness (Walumbwa et al., 2011). OCB and contributions to management are encouraged also because the manager is sure that no talented subordinate will promptly succeed him in office because of brilliant inventions, so long as his unit is efficient, effective, and innovative (Dore, 1973: Ch. 9). In such a culture promotion is slow and successors come from within by proving commitment to organizational

cause, loyalty to its people, high-morality, credibility, authenticity, and transformational leadership whenever the latter is required (Burns, 1978; Giuliani, 2002; Graham, 1991; Terry, 1993).

## MAINSTREAM RESEARCH BYPASSED HIGH-TRUST CULTURES

Long ago students revealed the decisiveness of trustful relations and that these lead to sincere, open communication and successful organizational functioning (Argyris, 1962; McGregor, 1967), as also found by some business leaders (Geneen, 1984; Harvey-Jones, 1988). The cited works and many others depicted high-moral innovative leaders who succeeded by trusting employees and creating high-trust cultures. But ethnographies depicting such cultures were ignored by organizational behaviorists and sociologists (Bate, 1997). The US and UK managerial conventions negated high-trust practices, but most research was done there. Disregarding ethnographies, mostly research missed how these conventions encouraged low-trust secrecy, bluffs, subterfuges, camouflages, scapegoating, etc. Even major works on employee participation ignored low-trust practices (e.g., Heller et al., 1998; Stryjan, 1989), as did works on communities of practice which obviously were trust-based (e.g., Orr, 1996), and also knowledge sharing and intellectual capital studies (e.g., Bontis, 2001; Stewart, 1997). And when Buckingham and Coffman (1999) found that the few most effective managers used trustful practices, they neither discussed trust, nor referred to its literature.

Trustful practices were seemingly ignored because most studies were carried out in the US and the UK, individualistic cultures that preferred powerful heroic leaders who do not really empower employees (Ciulla, 1998). For example, the head of the US Environmental Protection Agency enabled residents of Tacoma to solve a major environmental problem by a series of public debates and workshops. For this successful strategy, he was criticized by other officials, subordinates, and the media, all expecting him to decide and give orders (Heifetz, 1995: 88-103). Managerial rhetoric of trust and dialogue with employees is often a façade only, not aimed at empowerment and genuine trust (Ciulla, 1998; Courpasson and Clegg, 2006: 327). For instance, in a US hotel firm, only 26% of subordinate/superior pairs have mutual trust (Brower et al., 2009).

High-trust cultures were also bypassed because psychologically dominated leadership research

missed the ubiquitous tendency of initially trusted leaders to become low-moral autocrats with success, growth, and tenure and to turn cultures into low-trust, seductive/ coercive and oligarchic ones (Kets DeVries, 1993; Michels, 1959[1915]). Firms which initially succeeded by high-trust cultures led by transformational servant leaders (Graham, 1991; Greenleaf, 1977) are embedded in stratified social fields that reward successful leaders with powers and capitals (Bourdieu, 1977) which encourage continuity into a dysfunction phase that may commence after 6-11 years (Hambrick and Fukutomi, 1991). Then leaders become conservative and self-perpetuating oligarchs (Kets De Vries, 1993; Michels, 1959[1915]), inducing low-trust cultures instead of previous high-trust ones, as was in kibbutzim (Beilin 1984; Kressel 1974; Author 2008).

## LEADERS' DETACHMENT THAT DEFENDS AUTHORITY BY CONCEALING IGNORANCE

In addition to culture-dependent factors, intangible resources required for management and leadership also impact trust: A leader controls information flow to followers (Heifetz, 1995), but not their will to help him with their intangible resources:

[t]he elements entering into all but most routine decisions are so numerous and so complex that it is impossible to control positively only more than a few. Unless the subordinate is himself able to supply most of the premises of decision, and to synthesize them adequately,... supervision becomes hopelessly burdensome' (Simon, 1957: 227).

Each subordinate may supply different premises for decisions because of different areas of expertise, different analyses and syntheses of elements, different positions and interests. A manager, who has advanced from within holds considerable local knowledge, may know who the genuine experts are and who are impostors to be ignored, and trusted expert employees help him to choose premises (Bower, 2007; Author, 1995b). An outsider rarely has these resources, having experience elsewhere with different knowledge, and lacking trustful ties with locals to get reliable information (Gouldner, 1954; Author, 1987). Even if he has come from within the industry, he is ignorant of local know-how that is largely tacit and non-transferable (Tsoukas, 2005: Ch. 6); employees acquire it by hard work,

much experience, and mutual learning (Orr, 1996; Roy, 1952), and they impart its transferable parts only to trusted others. Hence, they will teach a leader only if he proves trustworthy, trying to learn by involving himself in problems, asking questions that expose his ignorance and making his authority vulnerable (Gobillot, 2007; Author, 1995b; Zand, 1972). To learn to swim, one must enter the water; by involvement in problem-solving and communicating with employees, a leader gains tacit knowledge and practical wisdom, called by ancient Greeks *phronesis* (Townley, 2002). He gets interactional expertise in their specializations that does not make him an expert like them (Collins and Evans, 2007), but enables him to discern experts from fools and impostors and genuine premises from false ones (Kets De Vries, 1993), ignoring the latter, and making informed decisions that employees can honor and follow (Geneen, 1984; Guest, 1962; Snell, 2001).

However, an outsider has many reasons for avoiding involvement. Some are obvious, such as lack of spare time and the danger of middle managers perceiving involvement as unwanted intrusion into their jurisdictions. Another reason is less obvious but decisive: Exposure of ignorance in order to learn diminishes one's authority, and if he is involved and fails to learn and solve problems, his incompetence is highlighted, undermining trust in his authority. Blau (1955) found that senior officers in a state bureaucracy defended their authority by concealing ignorance from the boss and other seniors, consulting only mediocre peers (Also: Mehri, 2005). The Londoner executives of an oil firm refrained from involvement by avoiding visits to its North Sea rigs, remaining ignorant of their culture of disinformation that concealed grave safety problems (Collinson, 2005b).

A manager may avoid involvement for fear that he will fail as he lacks primary source knowledge, basic knowledge of experts' language and concepts (Collins and Evans, 2007: 22-3). He may also avoid it if previous involvement has failed him because of employees mistrust, keeping cards close to chest in a low-trust culture. As they have acquired expertise by hard work and a long learning process, employees need a strong incentive to share it with an ignorant superior, unless he tries to learn by involvement that exposes ignorance, makes him vulnerable that signal trust in them and a genuine wish to solve problems (Gobillot, 2007; Guest, 1962; O'Toole, 1999; Zand 1972) rather than dominate them (e.g., Gouldner, 1954). But a manager who has advanced despite ineffectiveness (Luthans, 1988) tends to continue to use politics: patronage and clique building, selfish use of information, con-

cealing ignorance and incompetence while loyal deputies, cover-up mistakes and failures or blame others (Dalton, 1959; Kets De Vries, 1993; Mehri, 2005; Author, 1987; Stein, 2001).

## MANAGERIAL CAREERS IN KIBBUTZ HIGH-TRUST CULTURES AND FOS' LOW-TRUST

The uniqueness of the kibbutz field helps to expose the impact of contexts on co-operative managers' choice of either politics and low-trust practices, or high-trust ones that engender high-trust cultures. This field consisted of 270 kibbutzim and some 250-300 inter-kibbutz federative organizations (hereafter FOs). Kurt Lewin (1951) introduced field theory into social sciences and Bourdieu (1977) advanced it, but kibbutz students ignored FOs as a part of their field, although at the height of success, the mid-1980s, some 4500 kibbutz elite members, 10% of able members, administered 15-18.000 FO employees who served many kibbutz functions that required scale such as schooling, educating teachers, buying inputs, financing, insuring, processing and marketing agricultural products (Niv and Bar-On, 1992; Author, 2008; Stryjan, 1989). Customary kibbutz research did not study FOs; hence, information on them is meager and numbers are inexact, but this does not prevent using ethnographic studies made in 25 kibbutzim and three FOs plus 60 years of kibbutz life experience and 20 years of managerial experience to analyze contexts that help explain high- and low-trust cultures. Co-operation in FOs limited competition among kibbutzim for professional achievements such as yields, efficiency, and effectiveness, avoiding economic competition in markets, enhancing inter-kibbutz trust and sharing innovations that soon proliferated among kibbutzim because secrecy was minimal (e.g., Author, 2008: 288-9). In addition, the socialist Zionist cause united kibbutzim and enhanced joint improvements (Niv and Bar-On, 1992).

In Rosner's (1993) terms, a kibbutz is a trust-based commune, while an FO is a market-based, low-trust hierarchic organization. As against the kibbutz egalitarian and democratic ethos, the FO ethos was autocratic and bureaucratic, much like capitalist firms (Author, 1987, 1995a, 2008). With growth and success, FOs became oligarchic and conservative; leaders retained power for decades, in contrast to kibbutzim which used a managerial rotation norm (*rotatzia*) stipulating succession after a few years in office to maintain egalitarianism and democracy (Leviatan, 1993). In fact, *rotatzia*

enhanced oligarchization of FO heads: they were powerful enough to ignore it, while weak short-term kibbutz officers needed their help to get FO jobs to maintain managerial status. This dependency encouraged becoming unquestioning loyalists of FO heads, and more so because a critique of an FO head would have caused one's return to kibbutz ranks under the pretext of *rotatzia* (Author, 2001, 2008).

Usually the careers of officers commenced in members-only work units in kibbutzim, called branches, consisting of 2-15 people (except for large factories, but some were divided into small units; Author, 2008: 281-2). However, a manager who succeeded by high-trust culture and practices of his branch and advanced to manage his kibbutz in a similar manner, was later encouraged in FO offices to advance by political means, often Machiavelian, rather than by enhancing efficiency, effectiveness, and innovation. Therefore, in the kibbutz field a new FO manager could either continue high-trust egalitarian and democratic practices habituated inside kibbutz, or conform to FOs' low-trust autocratic, bureaucratic, and oligarchic tradition (Author, 1987, 1995a, 1995b). In addition, many kibbutz factories were operated by hired workers and had FO-like cultures (Kressel 1974); if their managers became FO officers, they continued low-trust practices. Thus, managerial choice of control strategy and the resulting high- or low-trust culture were impacted by both managers' habituses (Bourdieu, 1977) and a variety of contextual factors.

## HIGH-TRUST KIBBUTZ CULTURES AND PHRONESIS OF INVOLVED MANAGERS

Managers' habituses were initially shaped by kibbutz branches. Cultures of small agricultural branches were often high-trust egalitarian and democratic, led by managers who started out as workers, became proficient after 10-15 years of work and took a managerial course before taking charge. Many of them had trustful relations of camaraderie with workers from years of coping shoulder to shoulder with tasks and problems and continued learning in egalitarian communities of practice (Orr, 1996). They took charge with at least some *phronesis* and were often involved in all major problem-solving that promoted trustful co-operation, knowledge sharing, and innovation (Author, 2001, 2008; Stryjan, 1989). Larger branches such as member-operated factories were often decentralized with autonomy to department

managers who behaved similarly (Author, 2008: 23-6). The best managers modeled commitment, co-operative involvement, and trust (e.g., DeTienne et al., 2004), working harder and longer than others, helping workers with urgent manual tasks, retaining talented workers by offering them challenges, and building solidarity by praising members' achievements at gatherings they initiated, such as birthdays, births, and other celebrations. They prevented criticism of failures from hurting the status of committed workers who erred, and nurtured young team members who were possible heirs because high-trust relations made it implausible that they would seek managers' premature succession (Author, 2008: 224-5; e.g., Dore, 1973: Ch. 9). They achieved efficiency and effectiveness that often led to promotion (Author, 2008: Ch. 16), quite similar to Japanese Hitachi (Dore, 1973) and Brazilian Semco (Semler, 1993).

Moreover, innovative veteran ex-branch managers who advanced to FO jobs often coached young managers who did not menace their superior status, as branch best artisans and prime experts (e.g., Kondo, 1990). Such veterans even left FO jobs for a while in the high season to help the branch, modeling high-moral commitment to kibbutz cause, enhancing trust and co-operative innovation by branch experts (Author, 2008: 288-96; e.g., Snell, 2001). Trust was also enhanced by branch managers' wearing soiled work clothes like workers, doing some manual tasks, and helping workers' problem-solving while gaining experiential learning (e.g., Cunha, 2002). This explains how the kibbutz became 'a highly successful enterprise' which 'has proven to be adaptive and highly creative' (Spiro, 1983: 4), 'mastering the art of change' (Niv and Bar-On, 1992: 215), and reaching a population of 129,000, far beyond any other communal society.

## WITH GROWTH AND OLIGARCHIZATION LOW-TRUST CULTURES BECAME DOMINANT

But in many kibbutzim, creative innovation and high-trust cultures dwindled and almost disappeared as from the 1940s-1950s. Prime culprits were leaders of the three largest FOs called the Movements, who became transactional (Burns, 1978) autocratic conservative oligarchs after exceptional growth of the kibbutz system from about 1600 people in 1927 up to some 25,000 people in 1940. They moved Movement headquarters to Tel Aviv, used low-trust practices such as privileges to

staff; they centralized control, castrated democracy, promoted according to personal loyalty, and suppressed critics and innovators who left (Beilin, 1984; Kynan, 1989; Author, 2008). The leaders held power up to the 1970s and their loyalists violated *rotatzia* by either prolonged terms or life-long circulation between FO and kibbutz offices. The two prime leaders kept power by pushing to leftist reverence of totalitarian USSR, which legitimized anti-democratic practices (Author, 2008: Ch. 10). These practices enhanced power gaps between them and other members. Other FO heads followed and oligarchization diffused low-trust practices from FOs to kibbutzim with industrialization from the 1940s: Many plants used hired labor, autocracy, unlimited managerial tenures, and privileges, as well as little inter-factory co-operation, much market competition and secrecy preventing mutual learning and co-operative innovation. Status competition became intense and discernible: Many plant managers wore nice clean clothes, abstained from shop-floor problem-solving, curtailed workers discretion, never came to help in urgent manual tasks as their predecessors had done, and suppressed innovators, except for innovation aimed at growth. Many became autocratic rulers who controlled kibbutz finances, promoted loyalists to its management and became oligarchs, appropriating illegitimate privileges that elevated status above the rank and file, causing conflicts, mistrust, and brain-drain (Kressel, 1974, 1983; Author, 1980, 2008).

Low-trust relations proliferated in the field as democracy and egalitarianism declined in most of its units, including almost all FOs and some half of the kibbutz factories (Leviatan, 1975; Author, 2008; Zamir, 1979). Aside from kibbutzim with factory oligarchs, in other kibbutzim a few ex-managers with intangible capitals and status symbols from FO executive offices often became ruling elites whose power almost equaled oligarchs, suppressing innovators whose proposals could endanger their supremacy and causing mass exits; often up to 80% of members left (Leviatan et al., 1998: 163; Author, 2008: Ch. 14-15). In only a few kibbutzim, high-moral leaders engendered high-trust, innovative cultures (Author, 2008: Ch. 16-17), though in many others some high-moral branch managers created or continued local high-trust branch cultures. Some advanced to FO jobs and created high-trust cultures there. Let us see such a case in a regional FO with six plants serving kibbutz agriculture, with some 200 kibbutz member administrators and 650 urban hired foremen and operators.

## 'PURE PARACHUTED' MANAGERS' LOW-TRUST CULTURE IN THE COTTON GIN PLANT

Hamerkaz automatic cotton gin plant was established in 1961 by some 30 kibbutzim and was enlarged by adding a second, larger ginning unit in 1966 as more kibbutzim joined them, since cotton had become the prime and most profitable crop. The plant was studied in 1975-1980 by participant observation and 155 interviews with present and past managers and employees, board members, and cotton growers. In addition, four other such plants in other Israeli regions were studied by observations and by 63 interviews (Author, 1978, 1987). Hamerkaz employed 27 permanent staff to which were added some 100 provisional workers in the high season, mid-September to mid-December, when it was operated around the clock seven days a week, processing some 55,000 tons of raw cotton worth some \$US23 million. The process included drying and cleaning, separating fibers from seeds, cleaning fibers, compressing them into quarter ton bales by a huge automatic press, and sorting and storing them until shipped to textile factories in Israel and abroad. The seeds were sold to oil factories. It was a complex operation and there were no buffers between the many processing machines. Hence, a problem with one of them or with one of the some 250 electric motors that ran them in each of the two ginning units could stop the whole process.

Operator expertise was acquired by experience on the spot. A background in mechanics helped learning and was required for repairing machines, the other main task of operators. Operators were urbanites who had mostly finished technical secondary schools, an inferior education to that of kibbutz member administrators, four managers and six others, all of whom had finished better high schools and mostly graduated academic or professional colleges. However, none of them had experienced operating the plant as they came to offices from kibbutzim without experiencing operator jobs. This structure was aimed at keeping power in kibbutz members' hands in order to assure decision-making that would serve kibbutz interests. Unfortunately it encouraged mutual distrust between most of the kibbutz members and hired employees, as each side knew little about the problems and hardships faced by the other, and often grasped deeds and decisions by the other side as harming its interests. In addition, cultural differences between Ashkenazi Jewish kibbutz members and Oriental Jewish and Arab hired urbanites

also enhanced distrust. However, the most decisive factor was detachment of 'pure parachuted', completely outsider managers from the shop floor who defended authority by preventing exposure of their ignorance of plant's know-how, practices, problems, and solutions (Author, 1987, 1995a, 1995b).

A 'parachuted' manager means in Israel an outsider who is nominated after career success elsewhere with most of his knowledge and experience irrelevant for the job, for instance, an ex-army colonel who becomes city mayor. Observations differentiated 'pure parachuted' managers, complete outsiders like the ex-army colonel, from 'impure parachuted' ones, outsider-insiders whose previous jobs related to extant ones, endowing them with some relevant know-how, primary source knowledge (Collins and Evans, 2007) that enhanced learning local know-how (Author, 1995b: 92-3). Management literature does not explain how outsiders acquire local specific know-how and expertise required to function in jobs. Bower (2007) found that insider-outsider CEOs, i.e., insiders who were outsiders to predecessors' ruling clique, managed much better than outsiders, suffering less from knowledge gaps. This cohered with my finding that 'impure parachutists', outsider-insiders, managed better than 'pure parachutists', but rather than this being due to just fewer knowledge gaps, decisive was their relevant knowledge encouraging exposure of ignorance to locals when trying to learn, as they were sure this would not ruin authority. An 'impure parachutist' exposed ignorance by active involvement in problem-solving, showing trust in locals they would not use ignorance against him, and as he gained their trust they taught him local know-how, unlike 'pure parachutists' who remained detached, distrusted, and ignorant (Author, 1987, 1995b).

For instance, Thomas (pseudonym, as all below) was a certified practical engineer and ex-kibbutz garage manager aged 40 appointed cotton gin technical manager. He succeeded in his job because his relevant knowledge and considerable *phronesis*, practical wisdom, gained in managing the garage gave him primary source knowledge by which he understood experts' language and concepts, encouraged exposure of ignorance to them by involvement in problem-solving, gaining their trust and acquiring local expertise. He acquired local know-how and he soon proved superior capability in problem-solving, gained authority that led to successes (Author, 1995b: 92-3). He also modeled high-moral commitment to tasks, working 15-18 hours a day in the high season because involvement took much of his time.

Avi (aged 34) was a contrasting case with the same certificate but without mechanic's experience. He was more of a 'pure parachutist' and chose detachment to avoid exposure of ignorance to expert employees as it might have jeopardized the legitimacy of his status and power. They distrusted him, kept him ignorant of their know-how and information, and he remained a permanently 'half-baked manager', incapable of problem-solving and sound decision-making (Dore, 1973: 54). In the three month high season, during my participant observation, he impaired plant functioning and caused losses amounting to \$US150,000, leading to his replacement and that of his boss as well (Author, 1987: Ch. 2; 1995b: 90-4).

Many 'pure parachuted' managers behaved similarly. As outsiders they had no trusting relations with locals, and they mostly avoided problem-solving with them, defending authority by keeping what Edgerton (1967) called 'the cloak of competence', the strategy by which retarded youngsters survived outside their shelter concealing their incompetence by avoiding tasks that could expose incapacity. Like these youngsters 'pure parachutists' created an image of competence by detachment from situations that could expose their ignorance. The gin plant manager, Shavit (aged 35), had only an education in economics and business experience. He detached himself from operation and maintenance problems, but while detachment concealed his incompetence, it caused distrust of most employees who kept him ignorant of the plant's technology secrets. He tried to learn these secrets by visiting similar plants and equipment producers in Israel and abroad, but failed. He opted for conservatism that minimized know-how requirements, as did other 'pure parachuted' FO managers who controlled subordinates by coercive/seductive means rather than trust and consent (Author, 1978). In his fourth year of office, he did not know some of ginning secrets which I learned within my first week of work in operations. He kept his cards close to his chest, but employees did the same, so he could barely differentiate successful experts from failing incompetent impostors (Gouldner, 1954; Jay, 1969; Kets de Vries, 1993). With only filtered information and a lack of know-how, he made gross mistakes, evaded essential tasks, caused failures, and furthered mistrust, but by political means, he advanced his career more than involved effective 'impure parachutists' like Thomas (e.g., Luthans, 1988). His detachment enabled him to blame others for his failures, while using his ample free time to visit other FOs, he established ties by which he found another, better job after his replacement due to the dismal failure (Author, 1987).

'Pure parachuted' managers opted for detachment and remained ignorant also because of the *rotatzia* norm limiting their terms in office. In their next jobs either, in their kibbutz or in another FO, gaining *phronesis* they could have gained by involvement, would be useless, so why bother to learn it? Moreover, advancing to higher echelons in the field, for instance, heading a regional organization or similar FO, could be achieved much less by proficient, successful management of a plant than by finding a powerful patron, head of such FO and joining his loyalist clique (Author, 2008: Ch. 6; e.g., Dalton, 1959). Furthermore, turnover due to *rotatzia* of kibbutz members with whom employees had to collaborate also enhanced mistrust (Axelrod, 1984): Since employees repeatedly faced succession by unknown outsiders, they were secretive in a 'wait and see' posture until they knew whether they could rely on the newcomer or whether he was detached and distrustful like Shavit and Avi, or even worse. Shavit's predecessor, a young ex-kibbutz cotton branch manager, introduced tight control and minimal employee discretion, which signaled distrust. Trying to penetrate plant secrets by excessive involvement, he often mistakenly interfered in foremen's and technicians' decisions, ordering them heedlessly, without listening to their considerations, causing failures, machines breakdown, and much unneeded extra work. He used various covert control efforts including spying that furthered animosity and distrust, and they reacted with secrecy, disinformation, sticking to the rules, etc. (e.g., Collinson, 2005a; Dalton, 1959; Gouldner, 1954; O'Mahoney, 2005).

## THOMAS AND SHAVIT'S DEPUTY DANTON CREATED LOCAL HIGH-TRUST CULTURE

Now I turn to Thomas's successful conversion of this low-trust culture into high-trust by trustful collaboration with Shavit's deputy Danton and two other kibbutz members, despite Shavit's practices which conformed to FOs' low-trust tradition.

Thomas was brought to the plant by Shavit's predecessor a year after Avi's 'parachuting' proved a failure: Avi took charge after half a year of coaching by the exiting veteran technical manager, but repeatedly failed solving problems. Struggling to keep face, the manager who had 'parachuted' Avi did not admit failure since all hired foremen and technicians knew that the natural, much better successor would have been the senior foreman,

an experienced certified practical engineer, but he was dozen of years older than the manager and criticized his costly mistakes. Instead of firing Avi and promoting the latter despite him being hired employee, kibbutz member Thomas was nominated 'second technical manager' on the pretext of enlarging the technical staff ahead of the plant's renovation and capacity enlargement. As noted, Thomas chose much involvement, unlike Avi, in accord with different habitus. Avi's habitus was shaped by many short-term jobs in minor kibbutz managerial functions without experiencing high-trust branch culture, while Thomas had experienced it for twenty years in the kibbutz garage, first as a mechanic from the age of 14, working after school, and then as manager. His success as manager enabled him continuity as no member had asked him to abide by *rotatzia*. He became known among the region's kibbutzim and when Avi failed he was called to the rescue. As plant technical manager he continued garage habitus of egalitarian camaraderie and trusting servant leader (Greenleaf, 1977) involved in every hard problem, committed to professional excellence, and co-operatively innovating (e.g., Cunha, 2002; Semler, 1993; Author, 2008: 106-9, 224-5).

Certain of his expertise and *phronesis* as a basis for learning plant technology, Thomas was unafraid that exposure of ignorance would impair his personal authority as he soon would learn, solve problems, and gain authority, which indeed occurred (e.g., Gabarro, 1987; Watkins, 2003). Involvement signaled trust: In a community of practitioners (Orr, 1996), he exposed ignorance that made him vulnerable and enhanced trust and mutual learning by integrating various experts' know-how, helped by analyzing data, suggesting solutions, and implementing them or trying them until right one emerged (Author, 1995b; e.g., Gobillot, 2007; Zand, 1972). His unconventional behavior, contrary to other 'parachutists', raised suspicions, but some hired employees who felt that they were trusted helped him, conveyed knowledge and he in turn returned their trust and delegated authority, creating ascending trust spirals and rapid learning, as many more employees joined and shared their secrets when trust diffused (Fox, 1974; Shamir and Lapidot, 2003). In the high-trust climate, status differences stopped blocking the flow of ideas and information (Simon, 1957: 230), furthering learning and innovative problem-solving that brought about exceptional success, but only after another important change: The plant manager and his deputy were replaced by Shavit and a deputy called Danton (aged 32).

Shavit was an ex-kibbutz economic manager who had previously managed kibbutz building projects by contractors who used hired labor, having no experience of egalitarian camaraderie like that of the garage. Danton as an ex-cotton branch manager had such egalitarian experience, but unlike Thomas he had been subject to *rotatzia* after three years in office. The cotton branch was much larger than the garage: ten permanent members, many high-school boys and many extra workers in high seasons. It had practiced *rotatzia* since the 1940s, and although Danton criticized *rotatzia* as stupid, he abided by it, came back to the ranks and after a year was nominated deputy to Shavit. Danton appreciated Thomas' efforts to solve the problems left by Avi's failure, and others due to renovation and enlargement, and as he also chose involvement in his jurisdiction, as in the cotton branch, he gained employees' trust. Soon Danton and Thomas became the real managers who ran the plant, except for finances and business relations run by Shavit, while Avi kept his title while becoming Thomas's assistant, managed spare parts stock, bought spare parts in the cities, checked machine repairs there, etc. After three years he left to be kibbutz secretary, while two other kibbutz members, the chief electrician and garage manager with similar habituses to those of Thomas and Danton also helped their high-trust culture by much involvement together with hired employees.

Dirty working clothes as against clean clothes clearly differentiated the latter four from Shavit, Avi, and the other kibbutz member administrators who worked on the second floor of the office building which was clean, nicely decorated, and air conditioned, detached from the dirty shop floor, the garage, and the yard (despite frequent cleaning). The clothes of Thomas, the garage manager and the electrician were dirty as they dealt with dirty machines, while Danton managed the transport of cotton from the fields to the plant yard and from the yard to processing units, transporting seeds to oil factories, arranging worker schedules, and more. In theory he could remain clean, but his involvement in every major problem in these functions plus wide experience in operating and problem-solving of agricultural machinery, encouraged solving mechanical failures of lorries, tractors, forklifts, and shovel loaders, replacing a tractor driver for lunch, etc., hence, he also was dirty.

High-trust culture was engendered by another practice: accessibility of the four to hired employees. They were mostly outside their offices and were easily reached informally to receive and supply information, listen to complaints, work prob-

lems, and suggestions, unlike the other kibbutz members who were quite non-accessible except for intrusions into their clean offices on the second floor, clearly differentiated from the dirty first floor of Thomas' and Danton's offices, and the non-air-conditioned dining hall of shift workers, plus their dirty showers and toilets (kibbutz members and permanent hired employees dined in the industrial park's nice air-conditioned hall).

Near the building stood kibbutz member company cars which also signaled differences (hired employees got no such cars; a few had old cars): Shavit's and administrators' cars were new, better models, and clean as against lesser cars of the four (only Danton got a new car after two years). Another differentiating practice was the frequent gatherings of hired employees around Danton and sometimes Thomas on the benches in front of the offices. Without prior knowledge of the protagonists, one could not identify who were managers, foremen, or workers; only if one arrived towards the conclusion of a discussion he might have seen that Danton or Thomas concluded what had to be done and hired employees departed to do it. Most prior discourse was egalitarian and including an occasional dirty joke by a worker that sometimes pinned down a manager or foreman. Less frequently, the electrician and the garage manager dropped in, while neither Shavit nor Avi or any other kibbutz member participated in these informal meetings, another way to minimize accessibility to hired employees.

There were additional high-trust practices that space limitations prevent from detailing. The general picture however is clear: The four kibbutz member continued the high-trust cultures of their kibbutz branches in the plant, ignoring FO low-trust tradition, while Shavit and other kibbutz members adopted it. Thomas' and Danton's openness to frequent, authentic, and credible communication with subordinates enhanced trust and co-operative involvement (DeTienne et al., 2004), opened channels to the latter, contributing to management and leadership, which supported Thomas' exceptional success.

## THOMAS' EXCEPTIONAL SUCCESS, EXIT, AND THE RETURN OF LOW-TRUST CULTURE

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There is no room here to depict all of Thomas successes which made him a well-known expert among Israel's cotton gin plants and then abroad, as efficiency and effectiveness soared (e.g., Guest, 1962). Shavit did not interfere since the plant's optimal functioning seemed to prove his capability, but it frightened him: successful Thomas dominated managerial decisions more and more at the expense of Shavit's power. When Thomas proposed developing and building an original automatic cotton-feeder at one third the price offered by a well-known American firm, \$US80,000 instead of \$US250,000, Shavit felt that it was too good to be true and used red tape to tame Thomas and Danton, who supported the innovation.

However, the machine was not a miracle but a new combination of known elements that fit the extant system better than imported machines, saving a lot of money. Thomas sought after such a solution in discussions with local and outside experts, each adding ideas until this new solution emerged. To prove its feasibility and to measure the forces that various parts of the machine would have to bear, a \$US15,000 experiment was required. For three years, Shavit and his patron, the CEO of the regional organization who was a board member of the gin plant deferred the experiment time after time, exploiting Shavit's financial control. At last the experiment was conducted and succeeded, and a local producer built the machine, but Thomas did not inaugurate it. He resigned when he was sure the machine would operate successfully, as indeed happened, tired of conflicts with Shavit. At the festive inauguration, Shavit proudly stood at the control bench as if he had invented the machine, while Thomas' name was not even mentioned in a low-moral Machiavellian appropriation of his exceptional contribution by its opponent.

Another reason for leaving was a conflict with Danton about adding cleaning machines. Cleaning fibers is a major concern of the industry, but experts were divided as to whether this should be done mainly before or after separation of fibers from seeds. In short, expert Thomas who knew well the operation of both types of machines, wanted to add cleaning machines before separation, while inexperienced Danton and Shavit wanted adding them after separation. Thomas convinced the majority of the board, but this estranged Danton who concluded:

'A plant cannot run well if time and again we surrender to caprices of one person, even if he is the best expert.'

Thomas seemed capricious to inexperienced Danton, but experts I consulted with supported him or were equivocal, but they all agreed it was not a caprice but a true effort to optimize solution that had to be tried on the line. Without Danton's support Thomas lost power and was subject to a despised ignorant boss; hence, he left. Shavit and Danton brought Avi back to succeed him since, in their ignorance, they missed that despite six years of being called technical manager, Avi remained 'half-baked manager' (Dore, 1973). He soon failed again because of detachment aimed at concealing ignorance, and ruined the high-trust culture, since his behavior brought secrecy back, and uninvolved Avi did not know for sure what was going on and made awful mistakes. Danton remained involved with employees and they trusted him, but they preferred secrecy distrusting Avi whose decisions they scorned while Shavit backed him. Avi 'parachuted' a young kibbutz member practical engineer as deputy. Soon Avi's authority collapsed because of repeated failures to solve a major problem with a new machine he himself had chosen, causing a loss of 20% of ginning capacity. The deputy tried to fill his place but his orders showed stupidity and were often ignored. Stupidity was an outcome of his ignorance plus a power shift among hired employees from real experts whom Thomas had backed, to self-serving impostors: The ignorant leader of the latter used the power vacuum caused by Avi's collapse of authority to become the real power on the shop floor, seemingly helping the deputy but in reality controlling him (Author, 1987: Ch. 2). He was secretly backed by Shavit who did not identify his ignorance and used him as an informer. All the workers and I suffered many hardships due to failures caused by this mismanagement, while the losses it incurred ousted Shavit and Avi a year later, enabling them to keep face and continue managerial careers.

## CONCLUSIONS

High-trust culture proved decisive to engender successful functioning of the plant under shared leadership that also bred major innovation. This culture existed within the context of FOs' contrasting tradition and despite resistance by prime power-holders who habituated low-trust cultures. It was created by kibbutz members who came to office with contrary habituses of managerial success in high-trust cultures, choosing trustful co-operative involvement instead of detachment and low-trust, seductive/coercive practices. A major reason was their relevant knowledge and *phronesis* that promised success by involvement after exposure of ignorance which made their authority vulnerable but enabled learning. The co-operative high-trust culture they created gave lesser educated workers fair opportunities to contribute to plant management and leadership, advancing an exceptionally successful invention. However, this culture proved elusive since no one explicitly sought to create it, and its elimination was analogous. Taking charge by two middle managers enabled its creation, and succession of one of them was enough to ruin it. The high-trust culture was created without any formal changes and similarly disappeared. It was discerned by years of longitudinal study that included observations, hundreds of interviews, participant observation, and observations in four other plants; the great research effort needed to expose it also highlighted its elusiveness.

Culture and trust are problematic concepts. Hence, conflicting research findings helped to miss both this elusiveness and the decisive impact of high-trust cultures on the sharing of leadership. Co-operative studies rarely alluded to them and to leaders who created them; nor alluded to leaders opting to trustful relations by active involvement in problem-solving being a prime context that enabled members sharing leadership. Democracy is decisive in assuring accountable and replaceable managers tuned to members' interests and wishes, but it does not encourage managers to seek members' contributions to co-operative leadership which may belittle their own contributions and personal authority. Without managers and members trusting each other to make genuine efforts to reach the best decisions and actions for the common good, and without managers opting for involvement in problem-solving and using trust and consent to manage and lead, sooner or later critical thinkers and talented, educated members are frustrated, distrust emerges and causes brain-drain including 'leaving inside', avoidance of the co-operative deliberations. Even in kibbutzim only one out of

seven studied retained high-trust culture for some decades but failed to keep it permanently (Author, 2008). This suggests that co-operatives are susceptible to managers tendency to use seductive/coercive controls that have a number of advantages from their point of view, but they are lethal to co-operatives' principles. However, high-moral servant transformational leaders who choose otherwise are not produced by sheer formal education, nor can formal democracy assure their elevation. They are the products of the context and practices of early working life, of acquired habituses, and/or of later situations that require and encourage such leadership (Burns, 1978; Graham, 1991; Greeleaf, 1977; Guest, 1962; O'Toole, 1999). All these endow them with intangible resources including *phronesis* that encourage involvement required to create high-trust cultures. Therefore co-operative research must seek to clarify how such contexts are created, maintained or disappear, which norms and practices assure the emergence of servant transformational leaders, and how to assure that when entering dysfunction phase (Hambrick and Fukutomi, 1991) they are succeeded by their own kind (Author, 2010).

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# THE PROMOTION OF CO-OPERATIVES THROUGH AN APPROPRIATE LEGAL ENVIRONMENT IN EUROPE: THE SCE (AND THE SPANISH CASE)<sup>1</sup>

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## INTRODUCTION

In recent times, the fostering of the economic development of co-operatives has been a significant subject of concern within the European Institutions, which have carried out an extensive program of promotion and support of this particular form of enterprise.

As a fundamental part of this plan, the legal framework of the co-operatives plays a significant role in the success or failure of the institutional efforts to facilitate their cross-border activities and their complete integration in the internal market as an important economic actor. Therefore, a Regulation on the Statute for the European Co-operative Society Given was approved by the Council in 2003 which essential aim is to “enable the establishment of SCE’s by persons or legal entities of different Member States”. This goal faces, however, some problems of different kind.

First, as opposed to Company Law, the legal regime of the co-operatives within the EU has not been previously harmonised, what unavoidably hampers the existence of a European model of co-operative similar within all Member States. Beyond these natural diversities between national laws, some countries such as Spain may face a further obstacle, due to their particular internal distribution of competences on regulation of co-operatives between the State and the regions. The Commission, conscious of the fact that all these differences may have an impact on the success of the SCE, is properly seeking to promote indirect approxima-

tion of national laws through strengthening the contacts and collaboration between national legislators.

To this regard, the European legislator has also tried to solve these obstacles by introducing a large number of references to the national legislation on public limited Companies in the Regulation on the SCE. This shows a progressive tendency to approximate the legal regimes of these two legal forms of enterprises, at least in specific matters.

This communication is aimed, firstly, at analysing whether the Statute for a European Co-operative Society and its implementation has achieved the primary goals above mentioned. On one hand, we will examine the Study on the implementation of the Regulation 1435/2003 on the Statute for European Co-operative Society entrusted by the Commission to a group of leading experts on the subject, to pay special attention to particular matters of greater concern. Besides we will focus on the references to the national regulations of Public Limited Companies contained in the Regulation of the SCE in order to determine their consequences. Finally, we will specifically tackle with the particularities of the Spanish case, for its very special features derived from a complex system of legislative competence distribution, and a case-based study will show whether the Statute has implied a contribution to the creation of supra-national co-operatives.

## SUCCESS OF THE SCE?

According to the International Co-operative Alliance statement of the Co-operative Identity, during the twentieth century the co-operative movement has enjoyed significant success. In numerous instances, they have demonstrated remarkable

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entrepreneurial skills, adapting to changed circumstances, seizing new opportunities, and diversifying business activities. Theoretically, the experience of the century has shown that there are few geographic, social and economic barriers that can prevent the spread of organised co-operatives. But, what about the legal barriers? According to the European Institutions, especially the Commission, until recent times there still existed some legal barriers that hampered co-operatives' cross-border activities within the EU represented by compartmentalisation of the European Union into 27 national legal orders. Since the completion of the internal market implies companies of all types planning and carrying out their business on a Community scale, the Commission promoted the regulation of an especial form of European Co-operative through the Council Regulation 1435/2003 of 22th July 2003 (RSCE). It creates the new European Co-operative without a prior harmonisation of the national legislation on co-operatives, and its main purpose is to get the structures of co-operative production adapted to the Community dimension. It should lead to an increase of the co-operatives' cross-border activity, but has this goal been achieved?

### LIST OF EXISTING SCE'S

The Study on the implementation of Regulation 1435/2003 on the Statute for European Co-operative Society shows that there are relatively few SCE. In particular, on the 8th of Mai 2010 only 17 SCE were formed in all Member States. On 6th July 2006, the first SCE was registered in Mola di Bari (Italy), where a group of Italian, Spanish and Finish organisations operating in the sectors of social services, academic activity and public administration created ESCOOP, SCE. The second Italian SCE was Agrisocialcoop SCE is another SCE domiciled in Italy, specifically in Torino and operating in the agricultural sector. The third one was also registered in Italy, but this time in the north-east part. The head office of Nova, SCE is located in Trieste and its objects concern the research and management of European financial instruments. Agrisocialcoop SCE is another SCE domiciled in Italy, specifically in Torino.

Other SCE's are located in Belgium (Seeds, SCE, operating in the sector of the communication and marketing and Walkena, aimed at real estate activities), Germany (Europäisches Prufinstitut für wellness & SPA SCE), in Hungary (Feuva, SCE, for the maintenance and repair of motor vehicles and Fantáziaország, SCE aimed at developing building projects), Italy (Cooperazione Euromediterranea

SCE, for the recovery and fostering of values and Fondo Salute, SCE, acting in the human health sector), in Liechtenstein (Altina Global Network SCE, aimed at marketing and distribution), in Netherlands (Cassia Co-op SCE, operating Support activities for crop production), in Slovakia (Schedar SCE, aimed at legal services, and Prosperity Group SCE, renting real estate and Stronghold SCE). Spain (Euskal Herriko Ikastolak SCE, aimed at education) and in Sweden, (Campus Redesign SCE, aimed at business and management consulting).

Other sources give different statistical information and add some other SCE's domiciled in Slovakia. In particular, these SCE's are Warp Holdings SCE, Trust Credit SCE and Izalco SCE<sup>2</sup>.

Some authors had pointed out that flexible national legislation could make it more attractive for members to choose that particular Member State. However, even if national legislations cannot be disregarded, *a priori*, as factors that can potentially influence the decision on where to register a SCE, practice shows otherwise. In my opinion, the above mentioned data show that there is little space for the debate on whether legislations play a significant role when choosing the SCE domicile. As seen, the existing SCE are registered in countries with higher traditional experience on co-operatives, such as Italy, where the SCE's find a favourable social environment and therefore can conduct their business more efficiently.

### THE SPANISH RESPONSE TO THE SCE

Besides the Spanish domiciled Euskal Herriko Ikastolak, SCE, the intervention of Spain in the development of SCE's in Europe embraces other ways, thanks to the fact that the SCE is an adequate legal instrument to promote the development of cross-border economic activities, not only of co-operatives, but also of any legal or natural person. Indeed, when establishing the legitimacy to create a SCE, the Regulation claims on "natural persons", "companies" and "entities" as well as co-operatives. It is only to form a SCE by merger or conversion that co-operatives are stated to be its exclusive members. This wide range of possible members of a SCE explains the fact that a number of Spanish legal entities, both of public and private nature, are taking part in SCE all around Europe. That's the case of LHEDCO (*Logément, Habitat Études et Développement Coopératif* SCE), a Luxembourg domiciled SCE in which formation the Spanish

<sup>2</sup> Information available at the Europäische Institut GmbH website: <http://www.libertas-institut.com>

public company VISESA<sup>3</sup> took part, together with other French and Luxembourg legal bodies. Also ESCOOP, an Italy domiciled SCE, has Spanish members.

## THE RSCE. LEGAL ISSUES.

### THE LACK OF PRIOR HARMONISATION OF CO-OPERATIVE LAW.

The RSCE contains a number of remissions to national legal orders, both to the national regime of co-operatives and to that on public companies. In regard to the first ones, and given that the national regimes on co-operatives have not been subject to a prior harmonisation, the constant remissions to national law imply significant differences in their legal treatment. Maybe, that might be one of the reasons why the remissions to the legislation on public companies are so numerous. Indeed, since the legislation on public companies has been exhaustively harmonised the remissions to that field are bound to produce much less confusions. Those remissions to public companies law are especially relevant in the field of the SCE's inscription, publication of documents and responsibility of directors.

In regard to the first of the above mentioned fields, article 11 contains a provision imposing that SCE's must be registered in the same register as public limited-liability. It is quite astonishing the fact that this provision does not refer to SE's, another typically European type of enterprise, or even to national co-operatives, but to national public companies. This is quite important in Spain, where the national co-operatives are registered in administrative offices governed by regional public law (*Registro de cooperativas*) whereas Public companies (SA) are registered in a totally different Register governed by national public law (*Registro mercantil*). As a consequence of the necessary transposition carried out by the Spanish Law, a Spanish SCE shall be registered in the Commercial Register whereas a national co-operative shall be registered in the particular regional register of co-operatives.

The same can be said in relation to publication of documents in the Member States, since according to Art. 12 RSCE, that publication shall be effected in the manner laid down for national public companies.

In my opinion, by this kind of assimilation between co-operatives and public companies the legislator pretends to boost legal certainty on the basis of the already harmonised public companies law<sup>4</sup>. However, this would not be necessary if the European Institutions smoothed the path for the harmonisation of co-operative law, as recommended by the Group of experts in charge of elaborating the Study on the implementation of the Regulation 1435/2003 on the Statute for European Co-operative Society (SCE). This study clearly recommends the Commission "to favour the amelioration and approximation of national co-operative laws, in particular by promoting the English translation of national co-operative laws, as well as research directed toward the elaboration of a European common legal framework on co-operatives"<sup>5</sup>.

Notwithstanding, this progressive dependence on Company law seems not being put to an end, at least in the short term, as the Action Plan "Modernising Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward"<sup>6</sup> does not foresee any specific measure on that sense<sup>7</sup>.

In conclusion, the above mentioned risky assimilation may imply a serious obstacle for the evolution of co-operative movement itself that and it could be avoided by a prior and autonomous harmonisation of the co-operatives. Better and common legislation on co-operatives had undoubtedly reduced the necessity to turn to public companies law.

<sup>4</sup> Especially Public companies have been exhaustively harmonised during the last decades through a number of Directives, i.e., **Directive 2009/101** on co-ordination of safeguards for the protection of the interests of members and others, **Second Directive 77/91** on coordination of safeguards for the protection of the interests of members and others, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, **Directive 2011/35** concerning mergers of public limited liability companies, **Fourth Directive 78/660** on the annual accounts of certain types of companies, **Sixth Directive 82/891** concerning the division of public limited liability companies, **Seventh Directive 83/349** on consolidated accounts, **Directive 2003/58**, on disclosure requirements in respect of certain types of companies, and **Directive 2001/86** supplementing the Statute for a European company with regard to the involvement of employees.

<sup>5</sup> Study on the implementation of the Regulation 1435/2003 on the Statute for European Co-operative Society (SCE). Final Study, 5.10.2010, p. 167.

<sup>6</sup> COM/2003/0284 final, available at the Commission webpage [http://ec.europa.eu/internal\\_market/company/modern/index\\_en.htm](http://ec.europa.eu/internal_market/company/modern/index_en.htm)

<sup>7</sup> Embid Irujo, J.M., "Aproximación al significado jurídico de la SCE", in Alfonso Sánchez, R. (dir.), *La SCE domiciliada en España*, Thomson-Aranzadi, 2008, p. 35-36.

<sup>3</sup> Visesa's capital is owned by the Vasque Government, and its main activity is to acquire, build and resell and rent real estate at reasonable prices. Webpage available at <http://www.visesa.com/default.htm>

## MANAGEMENT OF THE SCE: THE ROLE OF THE CODES OF CONDUCT.

As it is well-known, the Regulation offers the possibility to choose between two forms of building-up the SCE's management; the one-tier and the two-tier systems. The first one is compounded by the administrative organ, the number of its members being laid down by the statutes. This number of members must respect the legal maximum and minimum number in the case the Member State may fix them. Spain has not made use of this prerogative. The two-tier system is compounded by a management organ and a supervisory organ. Setting aside the two possible ways of structuring the management of the SCE, its members' liability is subject to the national co-operative legislation for loss or damage sustained by the SCE following any breach on their part of the legal statutory or others obligations inherent in their duties (art. 51 RSCE). As it has been warned, this can be a good reason to escape from strict national legislations on liability and choose the SCE's domicile on the ground of its looser provisions on the issue<sup>8</sup>.

Indeed, the Spanish Law 3/2011 on Spanish SCE's (LSCE) foresees that the provisions on liability contained in the Capital Companies Act (*Real decreto legislativo 1/2010 sobre sociedades de capital*) are applicable to the members of the administration bodies of the SCE (Art. 12). To *renvoi* to the liability legislation of national capital companies and not to liability legislation of national co-operatives avoids the compartmentalisation, since there is only one Capital Companies Act (of national competence) and 15 regional Co-operatives Acts (of regional competence)<sup>9</sup>.

In the next pages, we will focus on the liability of managers of co-operatives by drawing a division into two parts: liability for loss or damage and liability for debts.

The Spanish Supreme Court has assessed the criteria to be fulfilled by a liable conduct. To this regard, in order to determine the existence of liability the Courts must assess that the act is contrary either to the law, the statutes or the manager's duties. Secondly, there must be a quantifiable damage suffered by the co-operative or a third person and,

finally, a causal link between the act and the damage must be ascertained<sup>10</sup>.

On the contrary, liability for debts is not subject to any assessment of link between the debt and the negligent act, since it is considered to be a quasi-objective liability. According to article 367 of the Capital Companies' Act<sup>11</sup>, members of the administrative bodies are liable for the companies' debts whenever they do not comply with the duty of ceasing the activity once a legal cause is ascertained. The legal causes imposing the ceasing of the capital companies are determined in article 363 Companies' Act.

The question on whether this liability can be directly applied may be answered in an affirmative way, given the clear wording of article 51 RSCE and article 12 LSCE. However, it is not clear from those wordings which the requirements for such a liability are. Indeed, the conditions to cease the companies' activity whose infringements lead to liability are not directly applicable to co-operatives<sup>12</sup>. As a consequence and despite the apparently wording of article 12 LSCE, it is difficult to ensure whether co-operative managers can ever be liable for the co-operatives debts. Actually, the Spanish national and most of regional legislation on co-operatives do not contain such a rule on liability for debts, as opposed to Company Law<sup>13</sup>.

<sup>8</sup> Vicent Chulià, F., "La sociedad cooperativa Europea", Revista jurídica de economía social y Cooperativa-CIRIEC, num. 14, p. 76.

<sup>9</sup> See about the Spanish distribution of legislative competences *supra*.

<sup>10</sup> i.e., Judgements of the Tribunal Supremo of 14.5.1996 and 22.6.1995, quoted by Gallego Sevilla, L.P., "Notas en torno al régimen jurídico de la responsabilidad civil de los administradores de cooperativas", Revista jurídica de economía social y Cooperativa-CIRIEC, num. 20, p.86-87.

<sup>11</sup> **Artículo 367.** *Responsabilidad solidaria de los administradores.*

1. *Responderán solidariamente de las obligaciones sociales posteriores al acaecimiento de la causa legal de disolución los administradores que incumplan la obligación de convocar en el plazo de dos meses la junta general para que adopte, en su caso, el acuerdo de disolución, así como los administradores que no soliciten la disolución judicial o, si procediere, el concurso de la sociedad, en el plazo de dos meses a contar desde la fecha prevista para la celebración de la junta, cuando ésta no se haya constituido, o desde el día de la junta, cuando el acuerdo hubiera sido contrario a la disolución.*

2. *En estos casos las obligaciones sociales reclamadas se presumirán de fecha posterior al acaecimiento de la causa legal de disolución de la sociedad, salvo que los administradores acrediten que son de fecha anterior.*

<sup>12</sup> Among others, some of these legal causes are the existence of debts that reduce the net assets under a quantity equal to half the capital unless the capital is not increased and whenever the company is not bankrupt, and also the reduction of the subscribed capital under the legal minimum.

<sup>13</sup> Gallego Sevilla, L.P., *op. cit.*, p. 93. Only two regions out of 15 (Madrid and Castilla la Mancha) do foresee such a liability.

In our opinion, it can be discussed whether it would be convenient to foresee such a rule to prevent bankrupted co-operatives from engaging new obligations. In the meantime, we propose a modification of article 12 LSCE to expressly limit the application of the liability provisions regarding capital companies to the liability for damage.

In any case, it is more important to exhaustively regulate the directors' duties and obligations than establishing the consequences of their infringements. Law's principal function is neither correcting nor penalise economic abuses but improving and preventing them. That is why it would be remarkably preferable to set up a complete set of rules governing SCE administration. Since unfortunately neither the RSCE nor the LSCE accomplish such a significant task therefore there is quite an important opportunity for self-regulation.

### INADEQUATE TREATMENT OF CREDITORS

As opposed to public companies, the transfer of the SCE's registered office does not directly confer the creditors the right to obtain an adequate protection of their interests, but subjects the matter to an express intervention of the Member State of origin<sup>14</sup> to lay down the requirements (Art. 7:7 RSCE). As opposed to its legislation on SE, Spain has not foreseen any such requirement in that sense in regard to SCE's.

The Spanish law on SE<sup>15</sup> establishes that whenever a SE pretends to transfer its registered office within the EU the creditors have the right to oppose that transfer as long as they credits are not sufficiently guaranteed. Is there any reason to treat creditors in a different manner depending on whether they provide services or products to a co-operative or to a public company?

## RISKS OF ASSIMILATION BETWEEN COMPANY LAW AND CO-OPERATIVE LAW: CO-OPERATIVE VALUES AND CSR.

As the Group of experts in charge of the Study on Study on the implementation of the Regulation 1435/2003 on the Statute for European Co-operative Society (SCE) has already warned, "the system of references to national laws should be simplified. In particular, the SCE Regulation should avoid distinguishing between references to national co-operative law and to national public limited-liability company law, and simply provide that the national law which would apply to a national co-operative also applies to an SCE"<sup>16</sup>. Indeed, the text of the Regulation clearly reflects the progressive approximation between the administration regimes of the SCE and the public limited companies. This approximation is the result of the high influence that the Regulation of the *Societas Europaea* had on the elaboration of the RSCE<sup>17</sup>. In my opinion, in the long run, the progressive approximation can turn into assimilation between co-operatives and commercial companies with fatal consequences for the first ones. Indeed, we can observe that the phenomenon of the Social Corporate Responsibility is pushing harder towards a model of enterprise that respects the co-operative values and principles as stated by the International Co-operative Alliance.

As it is well-known, the most part of European companies are SME's with a relatively reduced number of members who are concerned about the company's activities. These particular features make SME's comply with most of the essential co-operative values at least to a certain extent. Indeed, values like self-help, self-responsibility, equality and solidarity are progressively becoming usual in the company law language.

If self-help means that full individual development can take place only in association with others, then it is also present in companies since association is also an elemental character of companies. Self-responsibility should be also an elemental character of true companies, aimed at continuity and not at speculation. Equality is relatively present at companies since it implies that members have rights of participation, a right to be informed, a right to be heard and a right to be involved in

<sup>14</sup> That is, the Member State where the SCE had its registered office prior to the transfer.

<sup>15</sup> Art. 462, 334, 335, 36 and 337 Ley de sociedades de capital (Law on Capital Companies).

<sup>16</sup> Final Study, 5.10.2010, p. 161.

<sup>17</sup> Girgado Perandones, P., *Régimen orgánico de la SCE domiciliada en España*, in Alfonso Sánchez, R. (dir.), *La SCE domiciliada en España*, Aranzadi, 2008, p. 298.

making decisions just as members of a co-operative do. Finally company law does not exclude solidarity by nature.

Indeed, all of these principles or values fall within the scope of the Corporate Social Responsibility theory. This theory implies the recognition of the companies' concern about certain interests different from those of its members. These commonly known as stakeholders include workers, consumers, providers, local communities, environment, etc.<sup>18</sup>. This new social, political and economic context demands new ways of doing business that respects these new values, close to those of the co-operative tradition. The public institutions, both national and European, have made significant efforts to define it and determine the best means to promote it since it is considered as one of the fundamental aspects of the socio-economic European model<sup>19</sup> and as an instrument to boost sustainable development and foster competitiveness and employment<sup>20</sup>. The importance of the CSR's postulates has been recently supported by its transposition into law. Indeed, CSR has abandoned its soft-law roots to become part of the legal order<sup>21</sup>. In this sense, besides the Law 3/2007 for the equal opportunities for men and women, the recently approved Law for a sustainable economy has incorporated several provisions on SCR. This law devotes its sixth Chapter to the promotion of the assumption of CSR policies by companies through incentives for the business sector. Besides, provision 36.2.c of the law foresees the promotion of CSR policies by providers of the public administration. Some of the

values that are to be promoted are shared by the co-operative sector, such as transparent management, corporate governance, environmental compromise, respect to the local context, human rights, improvement of labour relations, women integration in business, equal opportunities for men and women, universal accessibility for handicapped people and sustainable consumption<sup>22</sup>.

There still exist both in the academic world and in the managerial practice some studies alleging that brand's social responsibility image influences on purchase intent to a certain extent. In my view, the answer to whether the Corporate Social Responsibility influences the consumer's purchase behaviour must be definitely affirmative. Given that the CSR values are acquiring an important role in consumers behaviour, the similarities between those values and the values of the co-operative sector can imply a progressive assimilation of the two phenomena first in consumers opinion and then in the legislator's mind. One of the most interesting debates that can be raised is that on whether the capitalist sector can enlarge its goals through CSR policies to partly cover the social space usually occupy by the so-called third sector.

## THE SPANISH CASE

Finally, I would like to conclude this paper by setting out the special features of the Spanish Constitutional system as regards to co-operatives. The vague content of competences distribution of the Spanish Constitution<sup>23</sup> was the origin of a claim brought before the Spanish Constitutional Court by some Spanish regions willing to legislate on co-operatives. The lack of express prevision of the national competence to regulate co-operatives within the Constitution and the arduous debate on the nature of co-operatives (whether commercial or not), allowed the Court to state that "all competences that are not expressly conferred to the National legislator can be assumed by the Regions' legislators"<sup>24</sup>. As a consequence, all Spanish regions have progressively made use of this prerogative and enacted regional laws whose territorial scope of application is usually established on the basis of where the co-operative's main activity is carried out.

<sup>18</sup> *Vid.*, the work of Professor Libertini about the implementation and meaning of CSR in a country of civil law tradition (Italy), *Impresa e finalità sociali. Riflessioni sulla teoria della responsabilità sociale dell'impresa*, Rivista delle Società, genn-febb, 2009, p. 17. In Spain, among others, see Embid Irujo, J.M., *La responsabilidad social corporativa ante el Derecho mercantil*, CDC, nun. 42, 2004, pp. 11 ss.

<sup>19</sup> In depth, Krause, D., *Corporate Social Responsibility: Interests and Goals*, en Hopt, K., Teubner, G. (ed.), *Corporate Governance and Director's Liabilities. Legal, Economic and Sociological Analyses on Corporate Social Responsibility*, Walter de Gruyter, Berlin, 1984, p. 95 ss., and Dodd, T., *Responsabilité sociale des entreprises: encourager les meilleures pratiques*, Entreprise Europe, n. 22, 2006.

<sup>20</sup> The Commission's Communication "Making Europe a pole of excellence on Corporate social responsibility", 3<sup>rd</sup> march of 2006, COM (2006) 136 final, defines it as a "concept by which enterprises integrates social and environmental aspects in their business and in their relationship with stakeholders on a voluntary basis".

<sup>21</sup> The *Ley Orgánica 3/2007*, of 22<sup>nd</sup> of March, implied the integration of some of the CSR postulates into the legal order, J.M., *Responsabilidad social corporativa y capital riesgo*, RCR, num. 3, 2009, p. 6.

<sup>22</sup> Provision 39 of Law 2/2011 of 4<sup>th</sup> March, on Sustainable Economy.

<sup>23</sup> Especially arts. 149.1, 149.3 and 149.1.6 of the Spanish Constitution.

<sup>24</sup> Judgement of the Constitutional Court (Tribunal Constitucional) 72/1983, of 29.07.1983.

Moreover, a national law on co-operatives<sup>25</sup> lies beside the regional laws, becoming applicable only to co-operatives carrying out economic activities on a supra-regional basis and to those having its registered domicile in the “autonomous cities” of Ceuta and Melilla<sup>26</sup>. This complex legal context renders it more difficult to determine the subsidiary law to a Spanish SCE. Indeed, according to art. 8 RSCE the SCE shall be governed firstly by the RSCE, and subsidiary by its Statutes and the law of the Member State where the office has been registered (not national law)<sup>27</sup>, what means that the RSCE has adopted the territorial criterion.

However, the Spanish legislation primarily adopts a functional criterion to determine the applicable rule<sup>28</sup>, according to which the law applicable depends on the Region where the co-operative activity is mainly carried out. The diversity of regional laws that can be subsidiary applicable to the SCE explains the fact that the Regulation refers to the “law of the Member State” and no to the “national law”. This complex situation is further stressed by the Regions’ possibility to complement and execute European Law in matters of its exclusive competence (i.e. the possibility to fix a minimum or maximum number of members of

the management organ, art. 37.4 RSCE)<sup>29</sup>. At the moment, no Regional Parliament has made use of this possibility to develop the RSCE, but it is not to be completely excluded in the future.

## CONCLUSIONS

1. The legal regime contained in the RSCE is not exhaustive.
2. The way to compound the complete regime of the SCE is complicated by the constant remissions made to the national legislations. This complexity becomes still higher in Member States as Spain, since our Regions (*Comunidades Autónomas*) have exclusive competence to regulate co-operatives.
3. The RSCE is the result of a failed process to create a new European society with an own exhaustive legal regime. Therefore, the SCE would be a kind of a national society with some unified aspects.
4. The regulation mainly deals with the following issues: the ways to form a European Co-operative, the transfer of its domicile, the organic structure and workers implications.
5. The SCE is a supranational “neutral” society, open to any person natural or legal persons willing to satisfy its economic and social needs through the co-operative.
6. The RSCE foresees only two methods to form a SCE from national co-operatives exclusively: the merger and the conversion. The rest of the procedures involve natural persons or companies, as well as co-operatives.
7. The organic structure of the SCE is divided into two bodies, the General Meeting and the management. The latest can adopt two different forms: a two or a one tier system, what implies a novelty in Spain.
8. As stated in article 59.3 RSCE, the control of the General Meeting is kept in the hands of its user members, since the voting rights which statutes can allocate to investors (non-user

<sup>25</sup> Law 27/1999.

<sup>26</sup> More on this complex legal context in Alfonso Sánchez, R., *La integración cooperativa y sus técnicas de realización*, Tirant lo Blanch, Valencia, 2000, and “La reforma de la legislación estatal sobre sociedades cooperativas: su incidencia sobre las Comunidades Autónomas sin ley reguladora”, *La Ley*, n. 4750, 1999.

<sup>27</sup> Article 8. Law applicable

1. An SCE shall be governed:
  - (a) by this Regulation;
  - (b) where expressly authorised by this Regulation, by the provisions of its statutes;
  - (c) in the case of matters not regulated by this Regulation or, where matters are partly regulated by it, of those aspects not covered by it, by:
    - (i) the laws adopted by Member States in the implementation of Community measures relating specifically to SCEs;
    - (ii) the laws of Member States which would apply to a co-operative formed in accordance with the law of the Member State in which the SCE has its registered office;
    - (iii) the provisions of its statutes, in the same way as for a co-operative formed in accordance with the law of the Member State in which the SCE has its registered office.

<sup>28</sup> Article 1 Law 3/2011, Law Applicable to the SCE domiciled in Spain.

2. the (SCE) domiciled in Spain shall be governed by:
  - a) the Regulation 1.435/2003,
  - b) by the provisions of this law and
  - c) by the provisions of the Law applicable to the SCE on the basis of the territory where the co-operative activity is primarily developed. (...).

<sup>29</sup> Alfonso Sánchez, R., “Respuesta del ordenamiento jurídico español ante la realidad de la Sociedad Cooperativa Europea”, *CIRIEC*, n. 21, 2010, p. 6-8.

- members) may not together amount to more than 25% of the total voting rights.
9. El RSCE regulates uniquely the most essential aspects of the General Meeting therefore the completion of its legal regime can only be achieved through the integration of national provisions of the State of destination.
  10. The dual administration constitutes one of the most important novelties for the Spanish national legal tradition, since the possibility to opt for a dual system was not recognised before. Only some regions, (i.e. the Basque country), contained such a rule.
  11. The European regulation of the dual system creates some problems regarding the assessing, both the board of directors and the Assembly competences. In particular, the regime of authorisations is especially significant.
  12. In the field of directors' liability there are constant remissions to specific provisions of the legislation on Public companies what create several problems of coordination.
  13. The excessive dependence on the legal regime of public companies may imply a risk of assimilation between the two types of enterprise.
  14. The increasingly importance and social visibility of Corporate Social responsibility is a factor that further contribute to this previously mention assimilation.

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# THE ROLE OF LAW : THE MISUSE OF ISRAEL'S CO-OPERATIVE SOCIETIES ORDINANCE TO JUSTIFY DISCRIMINATORY MECHANISMS

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## PREFACE

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May a co-operative factory use underpaid migrant workers? May a Transportation co-operative force a separation between men and women? May a co-operative registered neighborhood apply racist criteria for new members? Whose role is it to determine?

This paper would discuss the role of Law in assuring co-operative values and principals within co-operatives, and the problems occur when a co-operative legislation lacks enactment of co-operative values and principals. The paper would examine the case of the Israeli legislation which not only lacks a values' and principals' clause, it was amended in 2011, in order to enable ethnic and social discrimination in acceptance mechanisms to co-operative registered settlements.

## THE LEGAL FRAMEWORK OF A CO-OPERATIVE

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A co-operative is a complicated legal form. It's an incorporated organization with financial and economic goals like any other business, but unlike any other business it has social and democratic values and principals, that are an essential part of its organizational rational. The Legal framework needed for a multi-concept organization as such is not trivial<sup>1</sup>.

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<sup>1</sup> The first co-operatives in England had to be registered according to charities laws - The Rochdale Co-operative was registered according to the Friendly Societies' Acts of 1829 and 1834, referred to the social objectives without relating to the economic ones while the first legal conceptualization of co-operatives in the U.S referred only to the economic aspects - The Capper-Volstead Act, 1920.

The role of law in this aspect might be argued. Why must a co-operative draw its values and principals from a structuralized legal framework and not voluntary, self-instructed rules and regulations? Why not settle for a technical registration legal mechanism and leave ethics and ideology to the non-binding arenas?

A similar question arises regarding NGO's or Charities laws, which are also both structuralized and ethical beings. It's been argued that a legalized ethical component in NGO's or Charity laws might bestow exaggerated power to the state, enabling it to restrict registration of politically unwanted organization using the legal system. So why should co-operatives be any different?

While the reasoning against the concretization of values in NGO's or Charities incorporation law has its merits, it can't be applied on co-operatives' laws. The main difference is that while the incorporation of NGO's and Charities is only a mean to an end - its social goals - a co-operative's goals, at least some of its major goals, are realized in the forms and characteristics of the incorporation itself. Democratic and member control; voluntary and open membership; member economic participation; autonomy and independence - all are basic co-operative values<sup>2</sup>. As such, all co-operative registration mechanisms must obtain these structuralized elements - they must be obligatory elements in the incorporation regulations, for otherwise it is just not a co-operative.

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<sup>2</sup> The other co-operative values: education, training and information; co-operation among co-operatives; and the concern for the community might be argued whether they are essential on the incorporation stage, thus does not mean that their significance to the co-operative is in any way undermines. These essential components can be achieved by internal regulation of the local movement and each co-operative.

A value-less law is much worse than no legislation at all. In the absence of legislation each co-operative must determine its regulations, specifying targets and methods of operations – thus engaging also in the social aspects of the enterprise.

Co-operatives law that does not compel co-operative values is as much as proclaiming that a co-operative is not different from other forms of incorporation. As such – a co-operative might settle for the legal status, and figure the mere registration is enough, and avoid considering essential co-operative aspects altogether.

It is not only that the rational of the co-operative organization requires the concrete realization of the co-operatives legal structure as a both technical and social mechanism, the public international law<sup>3</sup>, as was adopted by the U.N<sup>4</sup> and the ILO<sup>5</sup> requires the member states to “adopt specific legislation and regulations on co-operatives, which are guided by the co-operative values and principles... and revise such legislation and regulations when appropriate.”<sup>6</sup> The international Law decisions refer not only to the values required on the incorporated level but to all basic values and principals adopted by the ICA.

## THE ISRAELI CO-OPERATIVE SOCIETIES ORDINANCE

The Israeli Co-operative Societies Ordinance was legislated in 1933, by the British Mandate on Palestine and absorbed into the binding Israeli law. It’s a technical detailed legislation that went through very little changes over the years. The Co-operative Societies Ordinance has a strict incorporation nature, but it lacks, severely, on the co-operatives’ values and principals front. There is no «values clause» or «principals’ clause» within it and no

reference to co-operative values and principals. The Ordinance determines that an enterprise can be registered as a co-operative if it is «...a society which has as its objects the promotion of thrift, self-help and mutual aid among persons with common economic needs so as to bring about better living, better business and better methods of production...»<sup>7</sup>

Co-operatives took a major role in the economic and social life in Israel’s early days. Co-operatives were considered “the right way” of doing things, ideologically and economically. When Israel was founded there were 2200 registered co-operatives (in a population of 650,000) – holding dominant positions in all sectors of the economy, including industry, agriculture, transportation, small businesses etc. And in most fields of social and cultural life – education, health, theatre, publication houses, newspapers and so forth. Nevertheless, the Israeli parliament never got to a point of replacing the ordinance and creating an updated, values base, co-operative law.

The new founded Israel embraced the co-operatives as if they were a part of the national official organs, and thus requested to engage in national missions. Those increased the co-operatives power and influence, but at the same time identified them with the, not always liked, establishment.

The co-operatives established at the pre statehood era were deeply entrenched within the Socialist movement and as a whole had a deep ideological rationale. The Law was considered as a mere instrument for registration leaving all the ideological components of the co-operatives to internal regulations.

In the first decades of Israel, the government had a strong pro co-operatives bias, sometime more ideologically committed to the co-operatives values than the co-operatives themselves<sup>8</sup>.

As the co-operatives had no legal obligations to run their business according to the co-operatives movement principals and had to oblige only to their internal regulations, it was very easy to diverse from the co-operative path. As times have changed and the neo-liberal notions took the lead in Israeli

<sup>3</sup> See Hagen Henry, ILO, EMP/COOP, “Sustainability and co-operative laws in the face of the public international co-operative law”, paper presented at the Joint conference of ICAO and NCC, Krakow (Poland), March 2009; Hagen Henry, Guidelines for Co-operative Legislation, second, revised edition, ILO, 2005, Hagen Henry, Basics and New Features of Co-operative Law - the Case of Public International Co-operative Law and the Harmonisation of Co-operative Laws, Uniform Law Review, 2012, p.197.

<sup>4</sup> Guidelines aimed at creating a supportive environment for the development of co-operatives, Economic and Social Council, United Nations, May 2001.

<sup>5</sup> 193 Promotion of Co-operatives recommendation 2002.

<sup>6</sup> 193 Promotion of Co-operatives recommendation 2002, Section 10 (1).

<sup>7</sup> The Co-operative Societies Ordinance, no. 50 of 1933. (section 4).

<sup>8</sup> For example, the first Transportation Minister started an incentives’ mechanism that forced the Transportation Co-operatives to accept as members, hired workers, and to expend co-operation between co-operatives. Later on, the government used its power to enforce the opposite steps. See Yifat Solel, “Lost values, Neo-Liberal Government and Co-operatives: The state support that doomed Israel’s transportation co-operatives” Recma, April 2011.

politics<sup>9</sup>, most co-operatives changes their demeanor and started to act as hybrid organizations – still registered as a co-operative association but acting like a capital based for-profit company. This hybrid conduct was un-sustainable and led to the demutualization of most of Israel's non-agricultural co-operatives. The few that left were nothing more than an empty bureaucratic shell. A once co-operative empire became a place where a co-operative society registers as such, only for administrative reasons.

Registered co-operatives drifted further and further away from their original goals and aspirations with no legal mechanism to stop them. The values-less co-operative law made it possible for co-operatives to act with no regard to basic norms and values. It allowed transportation co-operatives to advertise campaigns of anti-abortions organization, right winged political party and anti-Muslim organization (only the latest was taken off after a few days due to public complaints); it allowed co-operative enterprises to locate their factories in the occupied territories - in contradiction to the international law – using stolen Palestinian land; it allowed agricultural settlement to abuse migrant workers – overwork and underpay them.

It became so obvious that being a co-operative enterprise doesn't have to carry with it any extra ideological baggage.

## ADMISSION COMMITTEES – A MECHANISM DESTINED TO DISCRIMINATE IN CO-OPERATIVE SETTLEMENTS

The Israeli Co-operative Societies Ordinance defines different types of co-operatives including: consumers', workers', co-operative sectors and co-

operative settlements<sup>10</sup>. The appliance of the same legal mechanisms on stores, factories and worker's co-operatives as on association that deals with all aspects of a members' life, holds great difficulties. The concept of the enterprise is so different it seems it was doomed to failure.

The Israeli Co-operative Societies Ordinance defines 9 different kinds of co-operative settlements – starting with a “kibutz” – a settlement in which all property is owned by the members collectively, that acts according to principles of self employment, and sharing of production, consuming and education; up to an association that's goals are to organize housing for its members in a community and run some community activities. Other types of co-operative settlements are called “Moshav” which has fewer components of shared property and decisions making than a “Kibutz”.

The Co-operatives Societies Ordinance enacts “Kibutzim”, and other collectives or massively shared settlements the right to consider and decide about the admittance of members. The unique nature of a collective association justifies significant consideration as such. It should be mentioned, that most Kibutzim has no more than 150 households – so the social interaction between the members is a very dominant aspect of the community's daily life.<sup>11</sup>

Since 1993, settlements registered as co-operative societies, were allowed to built on their once agriculture oriented land, new, separate, neighborhoods, whose residents were not members of the original co-operative society, but of a new one. Those residents did not take part in the communal life of the original settlement, their neighborhoods were separate, and held no special characteristics. Nevertheless, the fact that the new neighborhoods were registered as co-operative associations, gave them the right to choose their members<sup>12</sup>. A person or a family that wished to purchase a house

<sup>9</sup> There's an on going process that started with a political change of powers in 1977 - that brought to power a conservative-capitalist party - “The Likud”. The Neo-Liberal concepts the Likud promoted gained support with policy makers and economics, and became the only relevant economic method for all the governments that followed, including the ones that were headed by the Labor Party. Today Israel has the highest wages gaps in the western world.

<sup>10</sup> The Israeli Kibutzim were considered by the early Zionist movement as the elite form of conduct. It might be suggested that the fact that the co-operative settlements movements held such a major role in the conceptualization of the Zionist movement, the urban co-operative movement was left aside. The interests of the co-operatives settlements movements and their strong political lobby, are one of the reasons for the reluctance to discuss and promote a relevant co-operatives law in the Israeli parliament.

<sup>11</sup> It must be noted that there were always some problematic definitions regarding the acceptance as members of candidates in some of the Kibutzim, the infuriating of all is the decision not to accept as members of the co-operative people with disabilities that were born and raised in the Kibutz.

<sup>12</sup> See Neta Ziv, Chen Tirosh, “The Legal Struggle against sorting of candidates to communal settlements”, Gated Communities (2010) 311 (Hebrew).

in the neighborhood was required to approach an admission committee and to go through suitability examination, “in relation to the character of the settlement and its social texture”<sup>13</sup>.

The admission committees excluded unwanted populations. It’s been claimed the committees rejected as a rule: Arab Israelis, single parent families, families with special needs children and people originated in the Middle East and Africa. The so called “co-operative communal settlement” became a code name for – segregated, elite neighborhoods.

It should be mentioned that co-operative societies’ bylaws must be confirmed by the co-operative societies’ registrar, that approved and determined their legitimacy.

The problematic conduct of the admission committees reached public awareness after an Arab Israeli family was denied the right to purchase a house in one of these new neighborhoods, named Katzir<sup>14</sup>. The family filed a petition to the Supreme Court and won. Chief justice Barak ruled as followed:

“The state accepts the notion that as it was responsible for the establishment of the Harish settlement and another neighborhood on the central hill of Katzir, the allocation of land was made “to the public, according to the customary rules of the housing ministry. The allocation of lands was equal, with no distinction between Jews and Arabs. The state mentioned that “we have no conflict with the plaintiffs regarding the entitlement to live in the regional council of Tal Iron in the present and in the future would be like in any other, including giving the public the opportunity to purchase house. All that applies everywhere except within the boundaries of the co-operative association, where the admission is subject to the binding procedures of the association, according to its regulations”. But on what account the communal settlement differs from the urban settlement? For that question we did not receive any answer in the state’s affidavit....we ask whether the state is allowed to determine the allocation of a land to the community settlement of Katzir that is an all Jews destined settlement, within the regional council of Tal Iron? That sort of allocation contradicts the right to equality of the

plaintiffs, for it holds different treatment on basis of nationality. What is the special reasoning that’s fulfillment justifies the strike against the right to equality? For that question we received no answer.”<sup>15</sup>

The Supreme Court proclaimed that as the state is not allowed to discriminate when direct allocation of land is in question, it likewise not allowed to do so using a third party – in this case, a co-operative society. The court referred to the co-operative society as a mechanism to avoid the “equality obstacle”. The court did not mention the anti-co-operative nature of such requirements.

## LEGALIZED DISCRIMINATION IN THE CO-OPERATIVE SOCIETIES ORDINANCE

The new legislation was supposed to “correct” the new situation determined by the Supreme Court. When the bill was first addressed to the Israeli parliament, one of its initiators described “the need to protect Communal settlements’ unique nature”<sup>16</sup>. The Minister of Justice joined this reasoning while presenting the governments’ opinion - supporting the bill. They both failed to mention what the Supreme Court specified – that the settlements in question hold absolutely no unique nature. The settlements with unique nature have special authorized mechanisms, but those can’t be used by non unique-nature settlements – hence the bill.

The second initiator, an extreme right winged party representative<sup>17</sup>, did not try to hide his real intentions promoting this bill saying the bill would establish the right(!) of Jews to live in an “all Jewish” settlements.<sup>18</sup>

Members of the left wing opposition declared the bill as: “Israel’s first apartheid law”<sup>19</sup>. One of the reservations to the bill, suggested it would be called “The Authorization of national and social discrimination”<sup>20</sup>

At 3 AM, on March 22, 2011 the Israeli parliament accepted the amendment to the Co-operative Societies ordinance, establishing the right to reject

<sup>15</sup> BGZ 6698/95 Kaadan V. The Israel Land Administration and others, paragraph 26.

<sup>16</sup> Israel Hson, M.K, from the Kadima Party, that defines itself as center oriented. Parliament session, 9 December 2009, p.66,67.

<sup>17</sup> David Rotem, the extreme right winged party “Israel Beitenu” (our home), Chairperson of the Parliaments’ Law and Constitution committee.

<sup>18</sup> Parliament Session, 9 December 2009, p.76,78.

<sup>19</sup> M.K Hana Sweid, Hadash Party (communists and non partisan).

<sup>20</sup> M.K. Dov Chenin, Hadash Party (communists and non partisan).

<sup>13</sup> Decision no. 612 of the Israel Land Administration.

<sup>14</sup> The co-operative association claimed that the land was owned by the Jewish Agency, so it is not allowed to accept non-Jews as members of the settlement. The Jewish Agency received the land, for free, from “The Israel Land Administration” that manages all the state’s owned land (93% of all the land in the country)

candidates for residency on account of social and cultural unsuitability. The law determines as follows:

A settlement registered as a co-operative society, that is located in the periphery and has up to 400 households is allowed to establish an admission committee that would inspect all candidates for residency;

The settlement is allowed to reject candidates on the basis of them being unsuitable to the social life of the settlement and to its social-cultural texture.

The co-operative association is allowed to determine other pre-conditions that would limit admission to the settlement, as long as it is a part of its regulations, and that those received the approval of the registrar.<sup>21</sup>

Even though the law forbids settlements to reject a candidate on basis of race, religion, gender, nationality, handicap, family or parental status, sexual orientation, place of origin, ideological views or political affiliation – the broad definition that allows the rejection on the base of social suitability, makes the restriction e-relevant – no one would be able to prove he was rejected due to his nationality and not due to his social demeanor.

The Association for Civil Rights in Israel (ACRI) submitted a petition to the Supreme Court against this amendment, in the name of 4 Jewish residents of the Galilee<sup>22</sup>, an NGO that promotes co-existence and the association itself, demanding the amendment will be invalidated as it contradicts values that are protected by the basic law: Human Dignity and Liberty.<sup>23</sup>

The petition stated that:

“...The subordination of the freedom of an individual to determine his place of residency to a filtering process in an admission committee is a deep and dramatic restriction that does not characterize democratic regimes.”<sup>24</sup>

<sup>21</sup> The Co-operative Association Ordinance, Section 6B, 6C.

<sup>22</sup> That proclaimed the new law would destroy the regional development as an open and pluralistic region and would raise divisive and excluding atmosphere that would ruin their communities.

<sup>23</sup> BGZ 2311/11 Sabah and others Vs. The Knesset, Minister of industry, trade and employment.

<sup>24</sup> Paragraph 72.

...”Freely choosing a place of residence is a core component of the autonomy of free will, the right to freedom, the right to dignity and the right to housing, for the place of residency is a key for fulfillment of ones’ aspirations and opportunities: the opportunity for financially adequate housing, employment opportunity, educational opportunities for himself and his children, the opportunity to fulfill dreams like building a home in a small settlement or in an agricultural or communal settlement; the opportunity to better his quality of life, the opportunity to change his life, to start over.”<sup>25</sup>

“The right to choose a place of residency is violated by this law, especially for the Arab Israeli population, that lives mostly in the Negev and the Galilee.<sup>26</sup> Affectively closing the communal settlements and neighborhoods to the Arab minority puts the Arab citizen in a situation in which his free choices as to his place of residency are scarce.”<sup>27</sup>

“The right to choose a place of residency is a sham regarding Arab residents in the Negev and the Galilee, for the only settlements relevant to them, are all-Arab settlements, in which the infrastructure and governmental services are poor, there are no master building plans and the density is high.”<sup>28</sup>

...

“The mere use of admission committees is invalid, for there are many who won’t even try to be admitted to these settlements, because of its existence and their estimation their chances to be admitted are low to begin with. The need for high level of personal exposure in front of the admission committee has a cooling and excluding effect, for there are many who would not want to expose their lives in front of strangers. It is more so regarding populations that keep their privacy strictly due to lack of social tolerance – ex criminals; people who had psychiatric problems; people with HIV; people who did not serve in the army; homosexuals, lesbians, and transgenders; and so on.”<sup>29</sup>

The petitioners argue that there is a substantial danger the registrar would approve un-constitutional regulations that would increase the scope of legal rejection of candidates. In one of the known cases such regulations were disqualify due to public awareness and ACRI’s intervention – but as

<sup>25</sup> Paragraph 74.

<sup>26</sup> Where the Law applies.

<sup>27</sup> Paragraph 77.

<sup>28</sup> Paragraph 80

<sup>29</sup> Paragraphs 84.

they mentioned, there is no guarantee the registrar would reject such criteria if there would be no such scrutinizing.

## THE E-RELEVANCE OF CO-OPERATIVE VALUES

The one thing that was left out of the discussions was the fact that all those amendments took place in a legislation meant for co-operatives. The fact that there is no values and principals clause in the Co-operative Societies Ordinance is the reason all these procedures could have taken place<sup>30</sup>.

Considering the Co-operative Societies under discussion from a co-operative values and principals scrutiny – they would not have been considered as co-operatives. The settlements in question are nothing more than a periphery neighborhood of up to 400 households. There are no joint economic activities or interests of its members (no more than in any other place where people live one next to the other); there are no special social connections (there isn't even a contract determining any aspects of a community); there are no democratic mechanisms (outside municipal elections – in which the settlement is a part of a group jointly receives its services); the settlement has no autonomous characteristics; there is no educational essence – co-operative or other; no connections to other co-operatives and definitely no concern for community (outside the settlement) – therefore it is not a co-operative.

Ironically, the fact that the neighborhood is registered as a co-operative society, had given it the permission to act in contradiction to the first co-operative principal – the Open Membership clause.

The “open membership” is the first principal of the co-operative movement and has been so since the first co-operative introduced in Rochdale in 1844. The principals were adopted for the first time by the ICA in 1937 and when they were defined and specified in 1966, the open membership clause proclaimed that:

“Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political or religious discriminations, to all persons who can make use of its services and are willing to accept the responsibilities of membership.”

When the principals were re-examined almost 30 years afterwards, the «Open Membership» kept its significance, stating that:

“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.”

The open membership principal is the heart of the co-operative, it determines practically whether the co-operative would promote narrow interests of a closed group or would enhance social justice.

The values-less Israeli Co-operatives Societies Ordinance had turned the co-operative concept to an empty shell, featuring only technical registration and administrative aspects. It made the co-operative notion lost all its merits in the Israeli public sphere, so a racist based neighborhood could not only be considered as co-operatives, but its identification as such legitimizes its seclusion. And though there are many who protest against these enactments, no one does so from a co-operative perspective.

## CONCLUSIONS

One might argue, and rightfully so, that legislation is not enough and that there is a great difference between written law and real life. It is safe to say that legal norms do not ensure a meticulously keeping of ethical behavior. But it is as safe to suggest that the total lack of values in legislation makes it easier and in a way even legitimate, to ignore them.

The racist storm, lead by religious and political figures, Israel had suffered from in the last decade, should have found the co-operative movement as one of its main opponents. The co-operatives were to face those bad spirits and to serve as a role-model for tolerance and co-existence. The co-operatives were also to be expected to be in the front when workers' rights ignored and social rights lessened and to serve as barriers against religious fanatics engaging in gender exclusion. But no one in the Israeli society expected to see the co-operative movement in those battles, On the contrary.

Lacking legally binding co-operative values, Israeli co-operative societies, not only did not consider those battles as theirs - they are part of the offenders. There is a transportation co-operative that allowed forced separation between men and women in public transportation lines due to ultra religious demands; co-operatives that conduct

<sup>30</sup> I'm not suggesting they would not have found a different path that would enable the discrimination process, but it could definitely not have been a part of the co-operatives ordinance and would be much more complicated to enact all together.

their business in the occupied territories – using stolen land and water; co-operatives that use migrant workers' cheap labor - ignoring workers' rights; and suburban neighborhoods, registered as co-operative societies that set up admission committees that won't allow minority populations and other "unwanted people" to buy a house.

A values and principals based co-operatives law would not have prevented all the tribulations the Israeli society suffers from. It would probably

not even make the registered co-operative societies act according to the values of the co-operative movement. The one thing a proper law could have prevented is the use of the co-operative notion as a bearer of these conducts.

As the co-operative concept became but an empty shell, it lacked the ability to serve as an incorporated alternative – one that can be trusted to act according to social values and principals – an alternative that is mostly and urgently needed.

## CHAPTER 3

# CO-OPERATIVE FINANCIAL INSTITUTIONS



# THE VALUE OF EUROPEAN CO-OPERATIVE BANKS FOR THE FUTURE FINANCIAL SYSTEM

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## INTRODUCTION

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In several studies, the experience of a number of individual European co-operative banking groups in previous and the recent financial crisis has been highlighted extensively (Ayadi *et al.*, 2010; EACB, 2010; Groeneveld, 2011). The general tenor is that they have weathered current and previous periods of financial distress relatively well. However, it is generally accepted that the recent financial crisis will change the economic and political environment of the banking industry stronger than any other event during the last decades. The crisis has brought to light the serious challenges that the European financial services sector is facing. Hence, co-operative banks will be confronted with a wide array of far-reaching regulatory and policy measures to reduce the risk of future financial crises, despite their recent good performance and solid track record. The other side of the picture is that some discussions and proposals hardly apply to co-operative banks.<sup>1</sup>

This article combines the insights of previous publications with important trends in the banking industry to explore the position and role of European co-operative banking groups in the future financial system. To this end, section 2 begins with a description of major changes and planned reforms in the financial system and their consequences for the business principles and market conditions in banking. In Section 3, the impact of these fundamental adjustments and trends on European co-operative banking groups is clarified. The second

part of this section looks at the impact and importance of European co-operative banking groups in national financial systems. It is concluded that the suggested reforms are mainly aimed at disciplining large parts of the financial sector that were predominantly responsible for the recent financial crisis. But quite some planned measures would have paradoxically put the healthy co-operative banking sector in a disadvantageous position if they would not have sounded the alarm and stressed their specific features to regulators and policy makers. Moreover, it is still not always acknowledged that co-operative banks contributed to financial stability in the middle of crisis.

Apart from these necessary efforts to raise the familiarity of the co-operative banking model, the analysis of this paper points to a bright future for co-operative banks. For instance, co-operative banking groups already comply with most of the required characteristics of the financial system. They are well positioned to benefit from the opportunities resulting from the financial crisis due to their long standing business philosophy and good reputation among customers. Traditionally, they have a strong customer focus, take into account the interests of many different stakeholders, have a moderate risk profile and are well-capitalized.

## CHANGING OR CHANGED CHARACTERISTICS OF THE GLOBAL FINANCIAL SYSTEM?

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The financial crisis has led to critical assessments of the rules, business principles and business models in banking (Groeneveld and Sjaauw-Koen-Fa, 2009). Understandably, top priority has been given to safeguarding the stability of the global financial

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system. A major effort concerned the restoration of confidence and customer focus in the financial sector. Various actions have been undertaken or are underway to achieve these objectives. Prominent initiatives are the far reaching reforms in regulatory and supervisory regimes in the US and in Europe.<sup>2</sup> The Basel Committee on Banking Supervision (BCBS, 2010a) announced higher capital and liquidity requirements for banks as preventive measures to reduce the likelihood of future crises. The regulatory reform will inevitably result in funding structures moving away from volatile and short-term sources, i.e. towards more stable and long-term sources, such as capital and deposits. However, the crisis has also increased investors' awareness of banks' capital endowments. It is thus likely that market participants will end up requesting additional buffers on top of the minimum regulatory requirements. The limited funding resources together with the increased demand are probably resulting in increased competition and funding costs in the medium to longer term (ECB, 2010b). This will lead to higher credit interest rates and could lower the potential economic growth rate.

Key is that regulation and supervision should be reformed to encourage a financial system that better mitigates systemic risks (Kodres and Narain, 2010). Important elements in many proposals are strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets and reinforcing international co-operation among regulators and supervisors. Even without regulatory reform and pressure from the BCBS (2010b), many institutions should rethink their risk taking activities and how they can better align risk taking with employee compensation.

Tighter regulation and supervision are necessary to restore confidence and maintain financial stability, but are not sufficient to prevent a next crisis. The same holds for the possible introduction of financial transaction taxes, banking taxes or resolution funds. All these measures cannot prevent a systemic crisis. These suggestions can be understood from the perspective of policymakers and taxpayers, who had to pay for rescuing troubled banks in the end. However, banking taxes and resolution funds do not contain incentives for banks to behave more prudently or less risky in the future. Actually, a fund could aggravate the problem of moral hazard on behalf of banks. Knowing that a well filled fund is available as a safety net in case of problems could even provoke riskier behav-

ior by certain financial institutions. A better way to discourage excessive risk taking by financial institutions is that banks' shareholders and bond holders are exposed to financial risks if a bank gets into trouble. This argues in favour of so-called contingent convertibles. Contingent capital is debt that converts into equity or is written off when a bank is experiencing huge losses and/or write downs or an evaporation of capital, or when certain triggers for the minimum required capital buffers are hit.

A change in the business principles of the financial system will contribute mostly to the restoration and maintenance of financial stability and prudent behavior by financial institutions. These behavioral changes cannot be enforced easily. While the financial sector has traditionally thrived on trust, a general distrust of the banking sector has now emerged. Financial markets and consumers must regain and keep confidence in banks. And banks must have confidence in each other. There have been accusations of corporate greed due to the sustained and often record profits that bank shareholders and management earned until the financial crisis broke out. This led to a public condemnation of the focus on short-term gains and materialism by banks. In this light, governments and society have rightfully demanded behavioral changes from financial institutions: a greater focus on morality and integrity, a healthy risk attitude, a longer-term perspective, improved (product) transparency and, last but not least, a much stronger customer focus.

According to Michie (2010), the financial sector has taken fairly halfhearted attempts to improve its ethics, risk perception and risk attitudes by its own after the crisis. By late 2008, tough proposals were put forward for healthier and more modest executive and employee compensation structures in the financial services industry (Financial Stability Board, 2009).<sup>3</sup> Disappointingly, the larger part of the financial services sector has apparently returned to the 'business as usual' model that has proved so costly to the economy and to public finances. Around the beginning of 2011, a return

<sup>3</sup> These schemes induced risky behavior and led to a fixation on short-term profit maximization and consequently acted as a catalyst for the emergence of the crisis. Periodically, the FSB is performing reviews of the steps taken or planned by its member jurisdictions to implement these principles. Notwithstanding different starting points in terms of pre-existing national frameworks addressing compensation issues and the degree of misalignment with prudent risk-taking, the FSB concludes that, on the whole, material progress and a movement towards convergence across jurisdictions have taken place (FSB, 2010).

<sup>2</sup> For example, Financial Stability Forum (2008), G-20 (2009a/b), The de Larosière Group (2009).

**Table 1** Main effects of the financial crisis for the entire banking industry

Main effects	Characteristics of the new financial system
Different rules of the game	<p>Corporate governance, clear attention to risk management</p> <p>Compensation schemes to introduce the right incentives</p> <p>Tighter supervision and regulation for banks and other financial institutions on an international level.</p> <p>Higher liquidity and solvency requirements for banks</p> <p>Lasting political and policy influence: issues of gradual run down of government intervention, exit strategies, reversal of extraordinary monetary actions, proposals for financial transaction taxes, banking taxes and resolution funds.</p>
Different business principles	<p>Customer centricity</p> <p>Morality and integrity</p> <p>Healthy risk attitude</p> <p>Long-term perspectives instead of short-term profits</p> <p>Attention to all stakeholders, not just shareholders</p> <p>Attention to externalities of behavior</p> <p>Transparency in products and organization</p>
Different business models	<p>Less, but simpler and transparent products and activities</p> <p>Focus on retail banking</p> <p>Reorientation towards home markets due to national support</p> <p>Less scope for large-scale international aspirations, partly due to support from national governments</p> <p>Dismantling of some large financial conglomerates</p>

Source: Rabobank analysis.

to the bonus culture was discernible in the United States and the United Kingdom in particular, which was largely fuelled by profits boosted by the increased market power of banks which have been rescued by the taxpayer. Perhaps, the future disclosure requirements on remuneration of the BCBS will bring about the necessary changes (BCBS, 2010b).<sup>4</sup>

Directly following the crisis, a relatively large number of banks expressed their intention to give the interest of customers again a more prominent place in their daily business. After the massive bailouts, society has understandably expected financial institutions to adjust their behavior to reflect the wider public interest and not, necessarily, shareholder interests. More attention must be paid to financial institutions' external effects and priority should be given to collective and sustainable interests. Integrity and ethics have to be central again and the short-term perspective with an exclusive focus on material gains and shareholder value is much less accepted. To stimulate these behavioral changes in banking, proposals have been put forward in some countries to introduce a banker's oath as a public ceremony. This would radiate self-awareness by bankers of their social responsibilities and the acknowledgement of the crucial role banks are playing in society. Interim assessments reveal that the promises above are as yet not completely redeemed.

### BOX 1 BANKERS' OATH

To stimulate bankers to behave morally and honorably, it is sometimes suggested to introduce a so-called bankers' oath. The Dutch Banking Association enforced the oath to its members. Bank executives and member took the oath and promise. The symbolic value of this oath is limited, though. The oath is taken in a closed circle and the declaration disappears directly in a personal file. This uneasy attitude is explainable and understandable, since bankers originally operate in a closed community. But this attitude is out-of-date.

The "Great Recession" has shown the devastating impact of a financial sector running away with itself. At the same time, this economic catastrophe revealed the indispensability of the banking sector. Banks fulfill a crucial social role. A professional oath for bankers would underscore this important social role and would confront bankers with their individual responsibilities regarding society and customers. That is of great importance and could be the prelude for a reconciliation in the sector and thus could be beneficial for the restoration of confidence in banks. However, the oath should be a meaningful and recognizable ritual that has to appeal to new generations, breaches cynicism and contributes to a subservient attitude of bankers.

Due to the envisaged new business principles and tighter regulation and supervision, many banks have reconsidered the nature, size, geographical distribution and goals of their activities. The diversified banking model has shown to have acted as a shock absorber in times of stress, and market participants expect it to increase in importance at the cost of specialized banking models (ECB, 2010b). It is a fact that banks have become more dependent on interest income instead of fee and commission revenues. At the same time, owing to the recent drop in and future pressure on profitability, banks are likely to search for additional profits and economies of scale in selected areas by focusing on their core – domestic – markets, activities and clients. Consolidation in the banking sector and a more efficient use of resources, for instance as measured by bank assets per employee, has continued after the crisis. The financial turmoil has also led to a retrenchment of financial markets within national borders and consequently to a reversal of the European financial integration process in banking (ECB, 2010a). Domestic banks have slightly increased their market shares in EU Member States at the expense of foreign branch-

<sup>4</sup> The objective of these additional requirements on remuneration is to enhance effective market discipline and to allow market participants to assess the quality of the compensation practices. These requirements should also contribute to promote a greater convergence and consistency of disclosure on remuneration. As a result, banks will be requested to disclose qualitative and quantitative information about their remuneration practices and policies covering the following areas: the governance/committee structures; the design/operation of remuneration structure, frequency of review ; the independence of compensation from short term results (cash/equity, fixed/variable).

es. More than half of the large European banking groups stated that they amended their internationalization strategies as a result of the financial crisis (ECB, 2010b). Large parts of the shadow banking system and some large international financial conglomerates have been dismantled and a move back towards retail banking has taken place.<sup>5</sup> Finally, the public and politicians have developed an aversion to financial institutions that are considered 'too big to fail', 'too big to manage' or 'too big to save', because this has introduced unavoidable moral hazard problems in the financial system.

## CO-OPERATIVE BANKING GROUPS IN THE NEW BANKING ENVIRONMENT

From the previous section and other publications (EACB, 2010; Groeneveld, 2011), it is clear that co-operative banking groups in Europe came through the recent crisis fairly well and did not need large scale government support. It is also obvious that their losses and write-downs related to the initial credit crisis were largely suffered outside their traditional home markets. These losses have been completely covered by financial co-operatives themselves. Domestic banking based on co-operative principles has proven to be a solid shock absorber and robust backbone of the entire co-operative banking organization. From these bare facts, it automatically follows that co-operative banks have contributed to financial stability in their home markets in the middle of the financial crisis. They neither caused nor added to the financial turbulences and following economic recession. Instead, they had a positive 'presence value' in national financial systems.

These considerations imply that many current regulatory, supervisory and policy issues as well as negative sentiments among the public, policymakers and politicians should hardly apply to co-operative banks. For example, the 'too big to fail' discussion and the question of undercapitalization do not really pertain to co-operative banks. Moreover, the possible introduction of general banking taxes or resolution funds could be interpreted as a punishment for 'good and prudent' behavior by co-operative banks and would ignore their stabiliz-

ing impact amidst the crisis. The suggested policy solutions to minimize the probability and costs of future financial crises are primarily directed towards shareholder value oriented banks, which caused the crisis and suffered the greatest losses. In fact, these measures harm co-operative banks and put them in a disadvantageous position. For instance, it is highly unlikely that co-operative banks would ever 'benefit' from resolution funds, simply because the probability of default of an individual co-operative bank is extremely low due to existing internal cross guarantee schemes.

Two interesting questions emerge from these observations. Firstly, how will the changing rules of the game, business principles and business models effect this healthy segment of the banking system? Secondly, how will regulators and policymakers assess the proved added or presence value of co-operative banking groups in national financial systems? Both issues will be addressed in the subsections below.

## IMPACT OF THE NEW FINANCIAL REGULATORY PACKAGE ON CO-OPERATIVE BANKS

The measures proposed at the international level to strengthen the quality of the capital and liquidity base of financial institutions might impact the specificities of the co-operative bank business model. The G20 have committed to developing rules to improve the quality and quantity of banks' capital and to introduce new global liquidity standards as a measure to make financial institutions more resilient to future crises. The Basel Committee on Banking Supervision (BCBS) started to work on this issue in 2009. At the same time, a lot of attention is devoted to the adjustment of compensation schemes to stimulate adherence to a longer term perspective by executives and certain groups of employees. Below, it is argued that these guidelines and rules have to be adjusted for co-operative banks. Otherwise, co-operative banks will be put in a disadvantageous position.

## CAPITAL REQUIREMENTS

Since co-operative banks managed to come through the crisis without much difficulties, there is no real need for introducing any new standards and/or additional requirements that could create difficulties for co-operative banking groups. Chart 1 shows that the tier 1 ratio of co-operative bank groups has always lied above the tier 1 ratio of entire banking systems, with the exception of

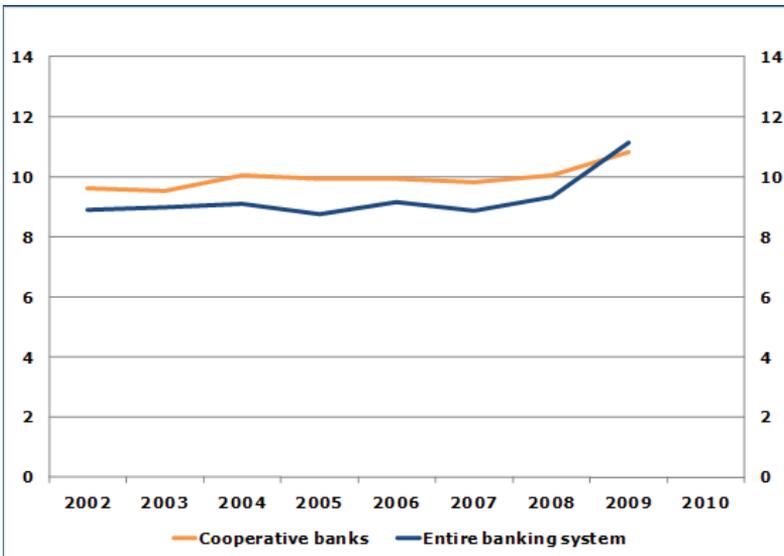
<sup>5</sup> Retail business is defined as financial products and services distributed through physical and non-physical networks to retail customers and SMEs.

2009 when many commercial banks received capital injections from national governments and were forced by the financial markets to increase their capital buffers considerably.

Nevertheless, the new tightened capital requirements will represent a challenge for co-operative banks. The reason is that they cannot easily access capital markets to issue new stocks and raise capital like listed banks.<sup>6</sup> Historically, co-operative banks have predominantly relied on retained profits to increase their capital buffers. Apart from the impassable road to issue stocks, the general pressure on banking profitability due to increasing competition on domestic retail markets may pose difficulties for co-operative banks to significantly expand their capital levels via the approved method of retaining profits. In conclusion, it is essential

that the overall calibration of the Basel package and its phasing-in do not create a non-level playing field to the detriment of co-operative banks.

Another element in the discussions concerns the definition of the Tier 1 capital base. The BCBS has indicated that the predominant form of Tier 1 capital is common shares and retained earnings. Regarding these shares, a set of criteria applies whether they can be considered as Core tier 1 capital. However, these criteria pertain to the shares of listed banks. Shares of co-operative banks will never meet these criteria, since the participation of members in the net assets of the co-operative is limited and they usually have no access to the retained earnings added to the capital. This necessitated a special treatment of co-operative shares in the new supervisory framework. In the policy



**Chart 1** Tier 1 ratio of co-operative bank groups and entire banking systems

Source: annual reports and data from national central banks or supervisors.

**Note:** the chart displays data of all co-operative banking groups in Austria, Finland, France, Germany, Italy, the Netherlands, Spain and Switzerland and entire banking systems in these countries.

<sup>6</sup> This argument can be equally questioned for listed banks, though. The recent financial crisis has demonstrated that these banks were unable to attract new high quality capital on the capital markets, when their capital vanished into thin air as a result of substantial losses and write-downs. Instead, quite a few 'commercial banks' had to be rescued by some form of state support.

documents, reference is made that shares of co-operative banks can deviate from the criteria as long as they are comparable in major aspects, especially regarding their loss-absorbing capacity.

The higher capital requirements and scarcity of capital will undoubtedly raise the price of the most important 'production factor' of banks, which will translate in higher credit interest rates. Like all other banks, co-operative banks will find it more difficult and more expensive to attract funding on the public capital markets. Hence, they have to find innovative ways to tap new and high quality funding sources. In this respect, Rabobank has recently issued so-called contingent convertibles, which transforms into tier 1 capital when a certain capital threshold is met and thus also serve the supervisory and regulatory goal of crisis prevention.

## LIQUIDITY REQUIREMENTS

The Basel Committee has proposed two liquidity standards: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The purpose of the LCR is to ensure the short-term liquidity of banks. The ratio imposes a minimum amount of high-quality liquid assets to be available in order to balance presumed outgoing cash flows in a stress scenario. For co-operative banks, it is crucial that the existing internal liquidity structures are taken into account. Initially, stress scenarios in the first consultation paper by the BCBS assumed an unrealistic outflow of deposits from co-operative central institutions. This would create serious problems, especially for non-consolidating co-operative banking groups like in Italy.<sup>7</sup> In the final paper, this inaccuracy has been addressed and two paragraphs are devoted to "Treatment of deposits in institutional networks of co-operative banks". Again, it is indispensable to look at the facts before, during and after the financial crisis. co-operative banks were definitely not confronted with outflows of deposits. On the contrary, they gained market share in the deposit markets. Hence, Basel III will increase the demand for (long) deposits and will lead to more competition on savings and deposit markets.

<sup>7</sup> Rabobank is not confronted with this problem, since the balance sheets of individual co-operative banks are consolidated at the group level and supervision is delegated to the central institution Rabobank Nederland by De Nederlandsche Bank.

## REMUNERATION POLICIES

In October 2010, CEBS issued a consultation paper on "Guidelines on Remuneration Policies and Practices". Member states and banks are expected to implement these guidelines by 1 January 2011. The background is that the crisis was partly caused by remuneration schemes focusing on short-term economic performance rather than sustainability and long-term business targets. This created risk profiles that were not consistent with reliable and trusted banking practices.

However, excesses of remuneration systems did not occur at co-operative banks at that scale. co-operative banks operate more in retail banking markets where a bonus culture is less prevalent than in wholesale and investment banking. In the latter markets, bonus systems provided payments immediately after selling the contract or closing a deal without paying little attention to the longer-term risks of the business (Eurofound, 2010). The Guidelines on Remuneration Policies were made suitable for co-operative banks. Initially, the proposal envisaged the obligation to pay a part of the variable remuneration in shares. However, co-operative banking groups and other non-listed banks do not have shares. Consequently, cash pay-out plans for co-operative and non-listed banks were added to the Guidelines.

### BOX 2 REMUNERATION AT RABOBANK

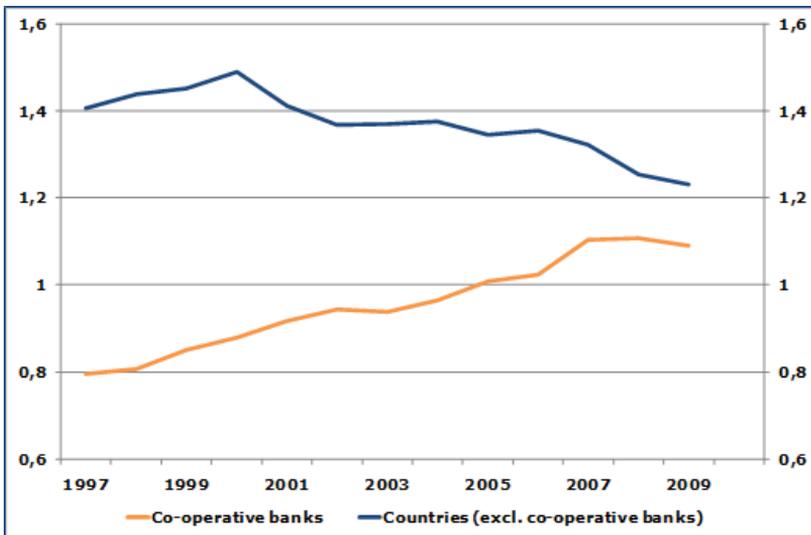
A linked question concerns the remuneration model. According to Rabobank's annual report for 2009, 'the remuneration structure within the organisation has never been such that it might encourage the irresponsible risks being taken'. At Rabobank, the remuneration of the executive board distinguishes between salaries, variable compensation and pension provisions. No variable compensation is awarded in the form of an option and/or as share packages. A short-term and long-term (long term being three years) variable compensation of 15% of fixed income exists for the executive board. A variable compensation component exceeding 30% of fixed income is paid only to a small number of individuals in highly specialised positions within Rabobank International.

## FUNDING

The funding situation of co-operative banking groups has always been on a more stable footing than that of other banks. Their loan-to-deposit ratios have always hovered below the average of all other banks in the respective countries, though this gap has narrowed in the last years (Chart 2). This

finding is in line with the greater focus on retail banking by co-operative banks. From 2001 up to 2006, this ratio has fluctuated just below 1.4 for the category 'all other banks'. In the last three years of the sample, this indicator came down considerably to 1.2, mainly due stagnating credit growth to the non-financial sector. In 2009, the volume of outstanding loans even declined by almost 1 percent at 'all other banks', which clearly reflected their weakened capital position and limited room to expand their credit portfolio. By contrast, the solid capitalization of co-operative banking groups enabled them to increase their lending to the non-financial sector in the economically dramatic year 2009 by 3.5 percent.

Since deposit funding is part of the current 'back to basics' policy implemented by numerous banks, it will become an even more heavily demanded source of funding in the medium term. The new liquidity requirements under Basel III will also intensify the demand for savings and deposits. Luckily for co-operative banks, the crisis has resulted in an increased awareness of differences in risk profiles between banks among the public. In the middle of the crisis, co-operative banks were demonstrably considered as safe havens for deposits. After the normalization of the situation in banking markets, it is an open question whether and how long co-operative banks can benefit from this reputation premium. It is certain that competition between banks will become fiercer.



**Chart 2** Loan-to-deposit ratios of co-operative banks and national banking systems  
*Source:* calculations based on data from annual reports of co-operative banking groups, the EACB and the ECB.

**Note:** the data are adjusted for breaks in the time series resulting from acquisitions of non-co-operative banks by co-operative banks. The chart displays data of co-operative banks in Austria, Finland, France, Germany, Italy, the Netherlands and Spain and the entire banking sector in these countries excluding co-operative banks. It concerns loans to and deposits from the non-financial sector.

From the perspective of co-operative banks, contingent convertibles could be an important alternative for capital requirements. They are an attractive alternative to the proposed banking taxes or resolution funds by politicians or policymakers to prevent tax payers from paying the bill of irresponsible behavior by banks if they get into trouble due to their own risky behavior (moral hazard). Regulators have made no secret of their interests for contingent capital; it keeps down the cost of capital in the short term, by classifying it as debt, but provides a buffer in case of emergencies that can be switched into loss-absorbing equity. Having this tool available for all banks would prevent the use of (i) public funds (taxes) and (ii) resolution funds that would have to be co-financed by well-capitalized and prudent co-operative banks. The costs of contingent capital have to be borne by risky banks themselves. These costs reflect the risk profile and business concept of these banks and inherently contain a trigger to mitigate their risk profile. Politicians hold the view that the bulk of the financial pain must be felt by the shareholders and partially by unsecured creditors through appropriate haircuts. This way, the taxpayer will not pay the bill if other banks get into trouble.<sup>8</sup>

## LEVERAGE RATIO

One of the underlying features of the crisis was that mainly US banks were leveraged with excessive on- and off-balance sheet leverage. Therefore, Basel III introduces a leverage ratio to set a limit on the leverage in the banking system as a non-risk based 'backstop' measure based on gross exposure. The two elements of the ratio are capital (numerator) and gross exposure (denominator) measures. Between 2013 and 2017, a minimum ratio of 3% will be tested. This proposed ratio will have a more severe impact on one bank than on another. co-operative banking groups with a relatively large retail business may be put at a disadvantageous position. The reason is that the ratio is not risk adjusted, whereas retail activities contain relatively little risks. It is unsure yet whether all European co-operative banking groups will not be limited in their activities by the leverage ratio. Hence, this remains a point of particular interest for the time being.

<sup>8</sup> Quite some bankers are unfavourably disposed towards the possibility that unsecured debts can be bailed-in even if a bank is not in default. If senior debt providers face the risk of losing part of their claims, the price of many debt types will increase. In this case, healthy banks will be confronted with higher funding costs as well.

## IMPACT OF CO-OPERATIVE BANKS ON NATIONAL FINANCIAL SYSTEMS AND ECONOMIES

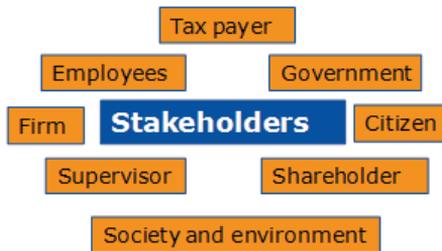
The financial crisis has shaken up (inter)national banking market structures with far reaching long term implications for competition, capacity, efficiency and profitability in banking. The understandable top priority for restoring and maintaining financial stability has led to large scale government intervention and 'messy' market conditions for co-operative banks. Be that as it may, it is somewhat worrying that policy, regulatory and supervisory responses seem to ignore a very important underlying cause of the credit crisis and of the global financial recession that followed in 2008/2009. It concerns the lack of financial diversity within the financial services system as a contributory factor to these developments. Most financial services sectors, and those in the United States and United Kingdom in particular, are dominated disproportionately by a single business model, namely the large, shareholder-owned company.<sup>9</sup> The purpose of the shareholder value model is simply to maximize financial returns to the shareholders.

This business orientation proved a lethal combination with the deregulation over the past decades, which led to the creation of new financial instruments, and an almost uncontrollable desire to grow fast either organically or via (inter)national acquisitions into large international financial conglomerates. This trend has culminated in banks that are too important to fail and have received disproportionate taxpayer support during the crisis (Bank of England, 2010). These identical business models have caused a gradual and invisible erosion of financial stability until the crisis broke out. This notion appears to be dawning on the European Central Bank as it states that diversity in business models at the macroeconomic level can offer benefits in terms of enhanced financial stability. The ECB adds that: *'if all banks in the system were to have similar business models, their assets would be more likely to be invested in similar activities and, as a consequence, characterized by a larger degree of commonality'* (ECB, 2010b, p. 33).

Part of the problem is that competition has been assessed on false notions for a long time. It has been frequently argued that the number of

<sup>9</sup> For the United Kingdom, Michie and Llewellyn (2010) propose to convert the failed financial institutions, e.g. Northern Rock, into mutual organizations to rebalance the financial sector along more robust and sustainable lines. They assert that diversity of structure, risk taking, corporate behavior and enhancing competition in the financial sector will be promoted this way.

banking firms determines the level of competition. The crisis has clearly demonstrated the opposite. Competition depends more heavily on the variety in different business models, and surely not solely on the level of concentration. More competition does not result from just adding more firms with the same business model but by also adding firms with different business models to those which are already there. Diversity in ownership and business orientation leads to diversity in risk appetite, management, incentive structures, policies and practices and behaviors and outcomes. It offers wider choice for consumers through enhanced competition that derives in part from the juxtaposition of different business models (Michie, 2010).



**Diagram 1** Stakeholders of financial institutions

Policy makers and supervisors should have much more interest in and a better understanding of the importance of diversity of ownership types and business models in banking (Ayadi *et al.*, 2010). The crisis has clearly shown the added value or presence value of the co-operative banking model. Fostering diversity in financial services also implies the acknowledgement of the specifics of co-operative banks. By nature, co-operative banks do not pursue highly aggressive growth strategies, which would conflict with their corporate governance and prudent use of their capital. Hence, they did not grow ‘too big to fail’ and stayed well away from critical financial thresholds. co-operative banks are Stake-Holder-Value (STV) institutions (diagram 1) with a fairly modest risk appetite.

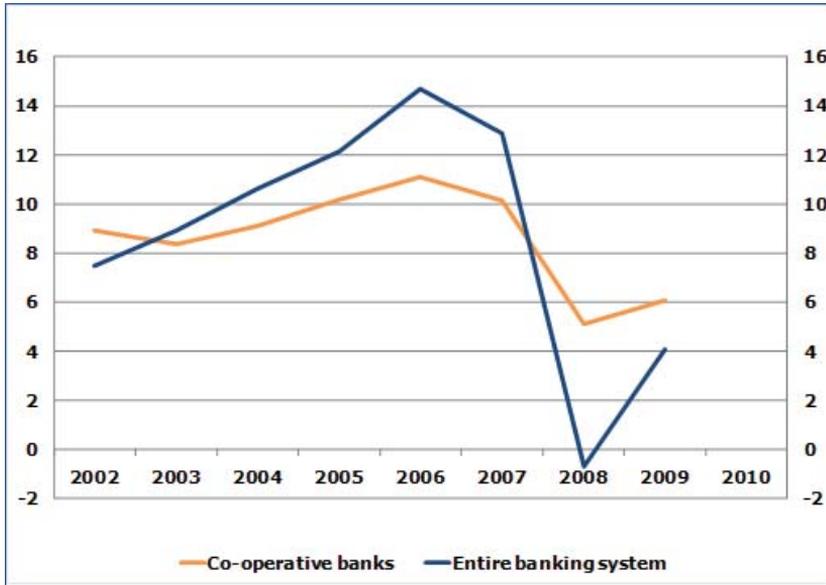
However, the contribution of co-operative banks to banking market structures is only noticeable if the co-operative banking model enjoys a critical mass. This means that financial co-operatives must have a certain market share to enable that model to operate successfully and thus to provide real competitive pressure on the other players within in the market. This is not to argue that the co-operative model is superior to other models, but that systemic advantages accrue through diversity.

In addition, Cuevas and Fischer (2006) argue that a financial system that presents a diversified institutional structure, including institutional types, will be more efficient in promoting economic growth and reducing poverty.

The point about the advantages of a variety of business models is closely related to the question of systemic stability. Chart 3 illustrates that European co-operative banking groups performed less badly in the crisis than national banking sectors. This is predominantly due to their different business models and the fact that they manage risks differently. In ‘normal’ times, co-operative banks actually realize lower but also more stable returns on equity (ROE), which mirrors their specific business model and governance. They are less profit-oriented than commercial banks. The average ROE of co-operative banks dropped significantly from 10 percent in 2007 to 5 percent in 2008, but this decline was fairly modest compared to the fall in the average ROE of the entire banking sectors from 13 percent in 2007 to *minus* 0.5 percent in 2008 in the countries under review. The crisis has revealed that this most common measure of a bank’s performance is only one part of the story, since a satisfactory level of ROE may reflect either high profitability or more limited equity capital. The high profits of commercial banks were in any case more related to high risks in derivatives markets and other investments (IMF, 2010). Profitability is therefore no reliable indicator for sustainability. In an environment with a high volatility, such as during the global financial crisis, the ROE does not help to provide an understanding of the potential trade-off between risk and return in performance (ECB, 2010c).

The impact of co-operative banks on the stability of national financial systems can be better assessed by calculating the so-called Z-scores. The Z-score is used to analyse the financial soundness of co-operative banking groups versus entire banking system in which they operate. The Z-score is determined by three factors: the return on assets (ROA), the equity capital as a share of assets (E/A) and the stability of the return on total assets ( $\sigma(\text{ROA})$ ). The Z-score indicates how many standard deviations from the mean income have to fall to make the institution insolvent by depleting its equity. It is a measure of bank risk and indicates a bank’s capacity to absorb deviations in income. The higher the value, the more stable is the bank and the lower is the probability of default (Mercieca *et al.*, 2007). The Z-score is calculated as follows:

$$Z\text{-score} = (\text{ROA} + \text{E}/\text{A}) / \sigma(\text{ROA})$$



**Chart 3** Return on Equity of co-operative banking groups and entire banking systems  
 Source: annual reports and data from national central banks or supervisors.

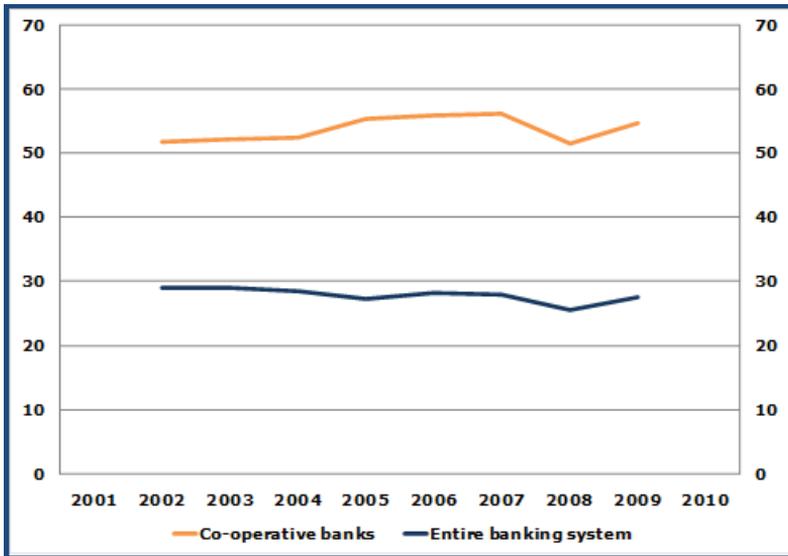
**Note:** the chart displays data of all co-operative banking groups in Austria, Finland, France, Germany, Italy, the Netherlands, Spain and Switzerland and entire banking systems in these countries.

Chart 4 plots the average Z-score for a number of co-operative banking groups and for entire national banking systems. In the entire time span, the Z-score of co-operative banking groups is as much as twice as high as the Z-score of the entire banking system. The Z-scores of both categories dropped in 2008, but improved again in 2009. The largest improvement took place at co-operative banking groups. According to this measure, and based on this sample and time series, co-operative banking groups are more stable, which is in line with the findings of existing other studies (Cihák and Hesse, 2007; Beck et al., 2009; Ayadi et al., 2010).<sup>10</sup> This relative stability could be attributed to the inherently low profitability in good times and the use of consumer surplus as a buffer in hard times to keep proceeds relatively fixed over time. Iannotta et al. (2007) also highlight that the better loan qual-

ity and lower asset risk of co-operative banking groups is a source of stability.

In terms of the three components, the ratio of equity/total assets (E/A) at co-operative banking groups is systematically higher (Chart 5). This supports the observation that co-operative banks maintain larger capital buffers, on average. A notable feature is that the level of E/A declined significantly in the entire banking system since 2003. At the same time, this ratio improved at co-operative banking groups up to 2008. A possible reason is that total assets rose strongly at commercial banks and that they only partly retained their profits according to the wishes of their shareholders. Hence, co-operative banking groups entered the crisis with larger buffers. The drop in the E/A-ratio of co-operative banking groups in 2008 can be largely attributed to declining E/A-ratios of Austrian and French co-operative banking groups. They suffered substantial capital losses in their foreign, more risky operations. In 2009, all banks made up their capital losses and strengthened their capital position. For the entire banking system, improvements in this ratio were to some extent caused by capital injections and government support.

<sup>10</sup> In all countries other than Austria, co-operative banking groups are significantly more stable than entire banking systems. In Luxembourg, the Netherlands and Switzerland, co-operative banking groups enjoy Z-scores which are 70 to 100 percentage points higher than Z-scores of the respective entire banking systems. The Austrian banking sector appears to be more stable than both co-operative banking groups (Raiffeisen Banking Group and Volksbank Group).

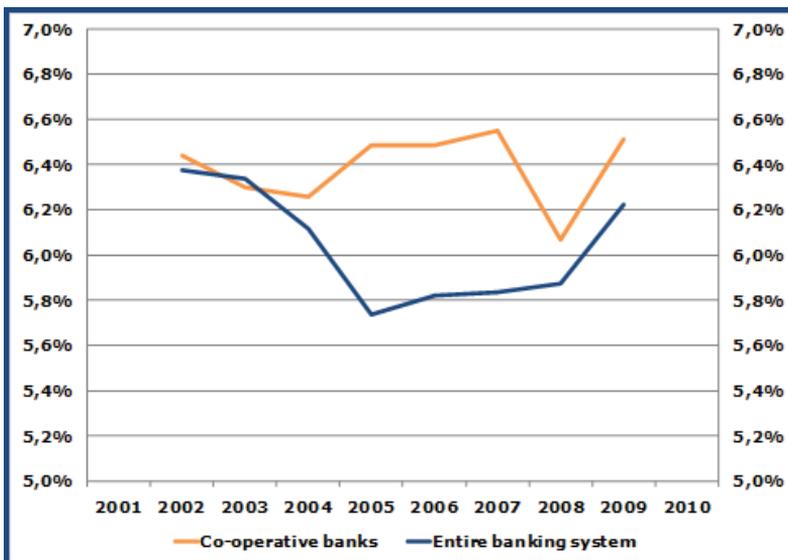


**Chart 4** Average Z-score for co-operative banking groups and entire banking systems  
 Source: annual reports and data from national central banks and/or supervisors.

**Note:** the chart displays data of co-operative banking groups in Austria, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Spain and Switzerland and the entire banking systems in these countries.

By contrast, the return on assets (ROA) was somewhat lower for co-operative banks up to 2008. This is probably a direct consequence of their business model focussing on the maximisation of customer value. In 2008, the ROA of entire banking systems plunged much stronger than the ROA of co-operative banking groups. In 2009, the ROA of co-operative banking groups and entire banking systems

improved again, but did not reach their pre-2008 levels. The third component of the Z-score, the volatility of profits, was on average 25 percentage points lower at co-operative banks in the entire sample, again in line with theoretical expectations. This can be largely explained by the relatively extensive retail operations of co-operative banks, which on the whole generate more stable profits



**Chart 5** Equity to assets ratio of co-operative banking groups and entire banking systems  
 Source and note: see Chart 4.

in less risky banking markets. In this respect, co-operative banks have possibly an increased ability to smooth their profit streams, giving them an additional boost in terms of stability.

## OPPORTUNITIES AND CHALLENGES OF FINANCIAL CO-OPERATIVES IN THE FUTURE FINANCIAL SYSTEM

After the exceptional events of 2008, during which the global banking system suffered from a general loss of confidence and erosion of value as a result of the financial crisis, the year 2009 marked the start of a gradual recovery in the financial sector, the development of tighter financial supervision and regulation and sharp changes in the business models and principles of financial institutions. 2009 also clearly revealed which banks came through the storm pretty well and relatively undamaged (EACB, 2010). The available empirical evidence shows that co-operative banks clearly stand out from their listed or commercial competitors, because none of them needed taxpayer recapitalization as a result of the global financial crisis. This achievement has increased the interest in their banking model among analysts, policy makers and supervisors. Earlier criticism about tedious decision making processes resulting from the co-operative governance (Fonteyne, 2007), inefficiencies in their business and distribution concepts and their potentially detrimental effect on market conditions for other banks (PA Consulting Group, 2003) has died down.<sup>11</sup> The recent performance and decades of experience of prudent management convincingly demonstrate the presence and added value of financial co-operatives.

The banking sector will undergo further drastic changes and has to adapt to the long term consequences of the crisis. Competition will increase, operational excellence is necessary, equity and liquidity ratios will – have to – rise and profitability

is consequently constrained. Moreover, the influence of economies of scale and scope will become stronger. These changing market conditions and banking structures will have a tremendous impact on financial co-operatives as well. The suggested supervisory, regulatory and policy reforms urge co-operative banks to emphasize their special features and recent achievements and performance. Policymakers and regulators have to be kept aware of the specifics of co-operative banks. It would be unfair if these banks would ultimately become victims of the avalanches of reforms and policy proposals meant to discipline commercial, investment and wholesale banks that were largely responsible for the emergence of the crisis. Particularly, they should stress their visible contribution to diversity within banking systems. co-operative banks should not stop pushing for establishing an agenda that encourages alternative financial institutions that will provide competition to the commercial banking sector, expand access to financial services and promote stability within the financial sector.

Despite all these challenges, financial co-operatives have good starting positions for the turbulent years to come. They hold many trump cards and competitive advantages. An important one is their special corporate governance which enables them to behave differently in the market and to apply a longer term perspective focused on customer value. Furthermore, financial co-operatives already seem to comply with most of the 'new' ethical and moral requirements in banking; they already have to take into account the interests of many stakeholders, pursue a low risk business model with a strong retail orientation, have a strong capitalization and do not aim at profit maximization which reduces the probability of excessive risk taking and the existence of exorbitant compensation schemes. In short, they do not have to adjust the banking model of their core business a great deal. This saves time, money and energy. Besides, most financial co-operatives have a diversified portfolio of activities. The appreciation of a diversified banking model has increased considerably, because specialized banks were particularly affected by the financial crisis (ECB, 2010b).

However, it is of utmost importance that co-operative banks convincingly demonstrate their main features and recent achievements to the public, meaning that their assertions of a strong customer focus and long-term commitment are credible and perceptible. For instance, they can point to the benefits and implications of their specific governance and healthy liquidity and capital positions, which are necessary but not sufficient preconditions for their viability. Actually, it just comes down to the

<sup>11</sup> The line of reasoning of PA Consulting Group (2003) that co-operative banks spoil market conditions for profit or shareholder-orientated banks and may eventually undermine financial stability, is fairly far-fetched and enervated by recent events. co-operative banking groups did not need taxpayer recapitalization and were surely not the cause of excessive risky behavior by commercial banks in the area of securitization or off balance sheet activities to achieve sizeable profits. co-operative banks simply have a profit target that is based on the objective to serve customers on a continuity basis.

question whether clients really notice that co-operative banks are different and put their interests first. During the crisis, many consumers lost confidence in their financial institutions and financial advisors and were not satisfied with their performance. But the evidence suggests that this client dissatisfaction applied to a much lesser extent to co-operative banks (Michie, 2010; Niemeyer, 2010). This leads to the crucial conclusion that the degree of alignment between the daily behaviour of the people allied with co-operative banks, i.e. employees, managers, supervisory boards, direc-

tors and customers, on the one hand and their formulated mission, core values and code of conduct on the other hand largely determines the extent to which co-operative banks stand out from commercial banks in the opinion of customers. Indeed, the success of every financial institution ultimately depends on the level of customer/member satisfaction. This is in turn influenced by many factors, including the quality and prices of products and services, innovative capacity, the perceived corporate social responsibility, attitude, knowledge and competences of employees.

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# HAVE CO-OPERATIVE BANKS LOST THEIR SOUL? A NEO INSTITUTIONAL ANALYSIS OF THE STANDARDIZATION PROCESS TOWARDS A “DOMINANT SHAREHOLDER MODEL”: FOCUS ON THE FRENCH CASE

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## INTRODUCTION

Since the Basel I Agreements and, more recently in 2004, the Basel II Agreements, the governments of 56 countries have modified their political and institutional framework by adopting new regulations with a single goal: control risks to which banks are exposed voluntarily or not, to avoid global systemic risks thanks to prudential solvency ratios, risk measurement concepts as well as financial and accounting standards. However, we have to recognize that such measures did not prevent financial crises, especially ones affecting the banking industry. Such failure was illustrated by the banking crisis of 2008 and the subsequent freeze of the asset back commercial paper (ABCP), ABS and CDS markets. This highlighted the vulnerability of banks and countries towards the systemic risk of market globalization. Moreover, the crisis uncovered the regulators' difficulties and inefficiencies to avoid financial contagion and systemic risk.

On the road to the Basel III Agreements, the trend has become clear: the measures are following the same regulatory logic that serves the previous agreements. Regulators of all countries have agreed to adopt a more integrated regulation to secure efficient monitoring and exert more practical controls on the banking system. Several options are under study and/or have already been applied:

- Raise the liquidity or regulatory capital ratios;
- Review the valuation rules of several asset classes;

- Tax the bankers' compensation based on excessive profitability;
- Forbid banks from speculating with their own capital and investing in speculative funds
- Extend the regulation of derivatives (especially credit derivatives) and establish organized markets to reduce the volume of transactions traded over the counter;
- Reinforce the control and consolidation of various activities of financial groups.

It is clear that those rules have not slowed the growth of banks nor their appetite for greater profitability. Over the last twenty years, several of them have become large banking groups, allowing them to develop innovative business models on the strength of their vast array of financial products and services. And despite the crisis, several of those have continued to expand by moving from a status of national institution to one of global and far more complex organization. Strangely enough, despite its complexity, the model of large banking group has gained a strong foothold in several countries and has been adopted by all sorts of banks, whether co-operative or joint-stock<sup>1</sup>.

The regulation used to control those banking groups stems from the rationale of standardizing practice and governance, wholly inspired by shareholder-based banks. The effect of such rules

<sup>1</sup> The terms of joint-stock, shareholder-based or common shareholder banks refer to the same joint-stock company model throughout this paper.

is to spread the basic of this model to all other bank models. Across time, even though such rules and principles were mainly conceived to regulate shareholder-based banks, they were applied without any distinction to co-operative banks, causing a process of hybridization of their governance and financial strategy model. In this paper, we aim to study the dynamics (Van de Ven, 2007) explaining the process of change of the co-operative bank.

a) The dynamics of the process of change: the effects of regulatory and institutional framework

To explain the effect of the regulatory and institutional framework on the structuring of large banking groups, the neo-institutional or the evolutionist economic theory proposes to analyze the series of changes and their effects on both institutional and organizational levels in an iterative way. Following Roe (2003) and North (1995), the institutional framework imposes its political and organizational determinants. In turn, this influences directly the governance structures, pushing players to adjust, innovate and make the strategic choices required within the limits imposed by the organization (Scott, 1995). Banks were developed in a rather fuzzy and poorly structured regulatory environment until the 1930s. The adoption of increasingly constraining laws since 1929, under the influence of several events, including the emergence of Keynesianism and the adoption of the New Deal, have forced banks to comply with new regulatory requirements and to modify their business model. As banks reacted to the new context by altering their organisational structure and business model through innovation, regulators have responded with their own regulatory framework<sup>2</sup>.

We might observe two types of changes: the heavy changes and the incremental changes. Radical institutional changes often occur in the wake of important crisis and trigger radical changes within banking organizations. Following the adop-

tion of the Glass Steagall Act in 1933 in the United States, the banks had to choose their fate between the model of a deposit-taking bank or of an investment bank. In the case of less important changes with much lower impact, the banks' response tends to become more incremental and steady.

In short, change is studied as a process (Van de Ven & Ring; 1992, Van de Ven, 2007) that evolves according to the reciprocity and progressive structuring effect, stimulated by the dynamics of organizational change, the institutional change and the social change (Burns et Scapens, 2000; Dambrin *et al.*, 2007; Dillard *et al.*, 2004). This interactive dynamics goes on, generating new forms of arrangements. We refer to this constructivist approach to analyze and explain the evolution of major banking groups.

The analysis of successive adjustments at both organizational and institutional levels explain the emergence of the main *banking group model*, increasingly global (as its own regulatory frame), with no sign of respite despite the financial crisis, since many of them have continued to expand. The analysis of the institutional and organizational framework also reveals another effect: large banking groups, whether shareholder-based or co-operatives tend more and more to look alike and become uniform<sup>3</sup>. Yet, fundamental differences distinguish co-operative banks from shareholder-based groups in terms of mission and governance and thus, their own financial, organizational and social performance goals. We have documented in previous researches the constraining effect of those rules on the distinct characteristics of co-operative banks (De Serres and Roux, 2008; Ory, Gurtner and Jaeger, 2006; De Serres and Ramboarisata, 2008).

How to explain these uniformization and osmosis phenomena?

Our hypothesis is that, in the field of banking, the continuing interaction between changes and adjustments occurring at the micro level of organizations and institutions, has lead towards a real process of homogenization and towards the reinforcement of the dominant model. This is what is creating the new paradigm, or new business model, at the expense of all others. The regulatory framework creates the effect of uniformization by spreading the model of governance and financial

<sup>2</sup> Organizational innovation can be considered as a creative response to constraints weighing on a firm according to Schumpeter (1946). Several research works contributed to widen the frame of institutional theory by proposing theoretical models of change that underlined the political nature of the institution (that is the role of influence agent) and the relational dialectic between economic and institutional stakes (Pettigrew, 1997). Others authors have also explained the reciprocity effect of progressive structuring between the dynamics of organizational, institutional and social change (Burns et Scapens, 2000; Dambrin *et al.*, 2007; Dillard *et al.*, 2004). Change is not only the result of an institutional process (Covaleski *et al.*, 1993). It is also an intrinsic part of the institutional process of change (Burns et Scapens, 2000). Change also express adjustments to routines and organizational abilities already in place, adjustments that are often quite modest but which are part of the dependency path created and implemented by the cognitive process of an organization (Nelson et Winter, 1982).

<sup>3</sup> The disappearance of investment and private banking groups built on the partnership model and their tradition towards a shareholder-base (the latest case being that of Goldman Sachs) is another reflection of this uniformization phenomenon (Morrison 2008). In Switzerland the same pressure is building on private banks. Two groups that became shareholder-based are Bank Sarasin and Julius Baer Group, while several others were bought out by publicly-listed institutional groups.

performance of shareholder-based banks, and by ignoring the specifics of different legal forms of banking, such as those of co-operative banks. As a result, the governance model and the financial strategy that were a distinctive feature of those co-operative banks have been hybridized. To support our hypothesis, we have identified several institutional and organizational changes that pushed to hybridization, osmosis and uniformization within several co-operative banking groups.

1. Major symptoms of external changes stemming from the regulatory and institutional framework causing standardization and homogenization effects:
  - Policies of transparency and disclosures of ESG (environmental, social and governance) risk management processes;
  - The regulation and standardization of financial products distributed by the banking industry;
  - The prudential regulation and international accounting standards;
  - The rating of co-operative banks as a convergence factor of their governance towards the model of shareholder-based banks;
2. Major symptoms of internal changes often stemming from a voluntary adoption by co-operative banks:
  - The adoption of compensation policies, which include variable bonuses and stock options;
  - The compliance to prudential requirements;
  - The adoption of financial analytical tools, performance measurement and the control of standardized management.

We finally question ourselves about the relevance of such regulatory rational towards banks, which aims at containing systemic risk but which, paradoxically, might actually increase it (Part 4). Through its effect of standardizing and uniformizing management and governance practices that it aims to foster, does it not tend to increase the vulnerability of financial institutions instead of enhancing their diversity? Finally, isn't it a move that goes against the objective of greater stability?

## INSTITUTIONAL AND REGULATORY CHANGES: THE *EXTERNAL* INCENTIVES OF THE STANDARDIZATION PROCESS IN THE CO-OPERATIVE BANKS

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### POLITICS OF TRANSPARENCY AND REPORTING

Over the last few years, several States have imposed new policy strategies on the mode of *Comply or Explain*, imposing corporations and financial institutions to comply with transparency and disclosure requirements (De Serres, Roux, 2006; De Serres 2004). Some legislations imposed transparency rules to corporations to allow investor self-determination. This is the case of art. 116 of the NRE law adopted in France in 2002, requiring that listed corporations disclose series of information on social and environmental issues. Since 2002, the same applies to Canadian banks, which have to produce a public responsibility report, including several information on their governance, their clients, their employees and other stakeholders. The Sarbanes Oxley (*Sox*) law, adopted in 2002 by the United States and several other countries, including Canada and the United Kingdom, requires multiple changes involving management reports and controls over financial statements. *Sox* regulations also cover investment management firms and institutional investors, who must disclose their investment policy and their proxy voting.

Other legislations require more transparency, by focusing on institutional investors, in order for them to exert pressure on the corporations in which they invest (by requesting more information on their *ESG* -environmental, social and governance- risk management, etc).

One such case is the Myners Report sponsored by the United Kingdom, which triggered a series of laws regulating pension funds and other types of investors, by enforcing disclosure rules of proxy voting and accountability rules in terms of social, ethical and environmental criteria for securities selection. These policies had immediate effect amongst investee corporations that wished to demonstrate their level of compliance (De Serres, Roux, 2008; De Serres, Ramboarisata, 2008). The phenomenon appeared regardless of the obligation, whether legal or to satisfy the expectations of institutional investors. As more and more corporations and banks followed suit in the disclosure momentum, the phenomenon of osmo-

sis has spread rapidly. One standard has become a common guide to all: the Global Reporting Initiative (GRI).

Moreover, whilst local co-operatives were already used to such social disclosure within their own community, the executives of leading co-operative banks (which were unquoted on the stock markets and were often excluded from such pressure) started to follow the lead, by reproducing the reports of joint-stock banks.

### THE REGULATORY CHANGES AND THE SIMILARITY IN THE RANGE OF THE BANKING PRODUCTS: THE FRENCH EXAMPLE.

In some countries (and especially in Europe), several regulatory and legal changes have been implemented, either to strengthen the protection of bank customers, either to enhance the competition within the banking industry. The consequence is also a standardization in the banking product offering.

This trend is especially noticeable in France. Whatever is the legal status of the banks (nowadays, two “joint-stock” *plc* banking groups, three banking groups “under co-operative control” and the recent joint-stock *Banque Postale*, whose majority shareholder is the French State), all of them provide their customers with the same range of banking products, although these products appear different thanks to an appropriate “brand name”.

This similarity is the combined result of a protest movement from the joint-stock banks and of some regulatory changes (i.e. the French Banking Law in 1984), but also responds to the wishes of the co-operative banks to let their customers benefit from advantageous tax legal arrangements. Thus, from the beginning of the 1980s, all the joint-stock banks and two of the co-operative banking networks have been asking the French State to extend the privilege of offering saving products without taxes on the interest revenue (which was previously possible only for Caisse d'Épargne, Credit Mutuel and La Poste). This process of osmosis has been growing step by step, and was finally completed in January 2010. In the meantime, the specific ranges of credit offering -with lower interest rate than the market rate- provided by the co-operative banks in exchange of their support to specific sectors (agriculture, export, SMI, ...) were disappearing with the decrease of the role of the State in the economy. Conversely, the co-operative banks have been asked -and finally won- the possibility for their members to benefit from the same tax advantages on the

(member) shares than the ones dedicated to the shareholders of the French joint-stock companies. The same findings apply to other financial products or services (such as private banking, mutual funds, and so on) . Virtually, no difference is noticeable anymore between the customer of a joint-stock bank or that of a co-operative banking group, considering the range of products available. This all comes from the combination of the legislation (the French Law in 1984 and also several European Directives) and the hybridization of the co-operative bank model and organization.

### THE PRUDENTIAL REGULATION AND THE INTERNATIONAL ACCOUNTING RULES: AN INCENTIVE IN THE STANDARDIZATION PROCESS

The implementation of the prudential solvability ratios and the adoption of international accounting rules also contribute to a more general process of convergence between the co-operative banks and the joint-stock banks.

From the start, the Basel Committee's proposals (1988) made no difference according to the legal status of the banks, and in Europe (CAD Directive, 1993; CRD Directive, 2006...), the Basel agreements were expected to prevail, regardless of whether the bank was co-operative or joint-stock, or whatever the scope of its activity.

Actually, additional changes in the prudential or accounting rules have accelerated the push towards standardization. Thus, in the first proposals of the Basel II Accords, the weights to be applied on regulatory capital requirement seemed to disadvantage co-operatives. Indeed, because the rules were based on the external ratings provided by the credit rating agencies, they were in favour of the CIB Anglo-American financial institutions, or of some large European banking groups (with *corporate* clients). Finally, the protest of co-operative banks (via GNC<sup>4</sup> in France, and via the EACB<sup>5</sup> in Europe), supported by the German *Länderbanken*, brought the Basel Committee and the European authorities to consider more seriously the criteria of credit portfolio diversification (i.e. which is more important in the co-operative banks), which finally reduced the capital requirement.

Some years later, the threat came again, from the non recognition of the member shares of the co-operative banks as regulatory capital. At first, the decision was taken in Europe to adopt the IFRS accounting rules. In June 2001, the so-called IAS 32

<sup>4</sup> Groupement National de la Coopération.

<sup>5</sup> European Association of Co-operative Banks.

amendment by the IASB<sup>6</sup> was likely to transform the nature of the co-operative member shares, from equity to debt (Detilleux, Naett, 2005). The reason given by the IASB was that a member could redeem his co-operative shares. Accordingly, member shares could be considered as debt instruments, despite the fact that members bear liability, in case of losses by the co-operative.

Although the IASB finally agreed (2006) with the arguments brought by the EACB<sup>7</sup> (through the lobbying of the European Commission), the issue arose twice again. The first took place during the attempts to reconcile US GAAP and IFRS accounting rules, when the same argument was put forward by the FASB<sup>8</sup>, coupled with the fact that the members in a co-operative have no individual ownership right over the reserve capital. More recently, after the financial crisis (2009), when the Basel Committee made new proposals to strengthen the solvency ratio, the argument has sprung back by restricting the definition of the *core tier 1* ratio. Member shares were not treated as common equities, with the resulting significant increase of capital adequacy rules from 2% to 4.5%.

Despite the fact that European Authorities have finally confirmed that the shares issued by co-operatives fell within the perimeter of the prudential ratio, the ongoing changes in the prudential regulation are not expected to be neutral for the co-operative banks. The exclusion of minority interests in the calculation of the regulatory capital, the enhancement of capital requirements (not only with a larger *common equity tier 1*, but also with the necessity to build some additional buffer-capital), the need for the solvability ratio to be considered at a consolidated level, may become a difficult challenge to cope with, at least for some of the co-operative banks (especially the small ones, not deeply integrated in a co-operative network or group, unlike in France). There seems to be a growing contradiction for them, between the need to satisfy the requirement in regulatory capital, to comply with the trend that tends to restrict the regulatory capital definition, and the opportunity to preserve their identity (especially the shares that are not listed and the reserves that are “not to be shared”; but also the fact that each of the co-operatives is an independent bank in itself, and not only a branch embedded in a larger organization).

In short, the bottom-up structure of a co-operative is increasingly clashing against the top-down model of joint stock banks and against the regulatory policy standard. As a result, the gap between the different choices made by the co-operative banks in various European countries is widening. On one hand, small ones are still close to the original co-operative model and organization. On the other, co-operatives are part of large banking groups, sometimes with listed vehicles side-by-side (like in France, cf. below). Furthermore, accounting and regulatory changes have become a strong incentive combination to move towards a more hybrid model, close to the dominant “shareholder” model. This is what the whole osmosis phenomenon is all about.

Besides the direct consequences of the regulatory and accounting standards on the co-operative banks, a further observation should be made: while the Basel Committee and the IASB or FASB are not, strictly speaking, a statutory authority with a power to enact legislation, their importance has grown to such an extent across the world, that they have become *ipso facto* unavoidable standards. The same applies to credit rating agencies. Yet, these institutions tend to align their standards on the dominant and “easier to understand” model: the one that fits with the most common organisation in the banking industry, i.e. the joint-stock publicly listed company. However, by standardizing practices, standards and models in the financial sector, it may also reduce diversity and increase the potential systemic risk.

### THE CREDIT RATING OF THE CO-OPERATIVE BANKS AND THE CONVERGENCE OF THEIR GOVERNANCE TOWARDS THE SHAREHOLDER MODEL.

The way the governance model of the co-operative banks has evolved is partially due to the growing role dedicated to the analytical process of credit rating agencies. Although the latter argue that the rating process is specific to each banking issuer, by taking into account the legal form (Fitch, 2009; Moody's, 2006) and the range of activities, the global analytical framework seems equivalent to all of them (Fitch, 2004; Moody's, 2005; Standard & Poor's, 2005), with a focus on the same criteria to assess the rating of a bank, regardless whether it is co-operative or joint-stock based. This is particularly true for the building of the *bank financial strength rating* (BFSR), first step of the rating process, prior to the *long term issuer's rating*. As an example, Moody's assessment relies on conventional ratios of return, of liquidity, of capital, of assets' quality, and on the cost to income indicator.

<sup>6</sup> International Accounting Standards Board, the executive body of the International Standard Accounting Standard Committee, which is a private and independent organization, at the source of the IFRS rules (*International Financing Reporting Statement*).

<sup>7</sup> EACB : European Association of Co-operative Banks.

<sup>8</sup> FASB : Financing Accounting Standard Board.

Thus, there is no specific ratio or indicator taking into account the specificity of the co-operative banks. Quite the opposite in fact, since the presence of a listed company on the financial market is often considered by the rating agencies as a way to ensure better market discipline. The same applies to the existence of “independent administrators” in the board of directors of a bank. Consequently, the rating process is quite likely to encourage the managers of a co-operative banks to be deeply concerned by the financial return and to adopt the same performance criteria than the ones prevailing in a *shareholder value* model of governance, rather than in a *stakeholder value* model.

## THE STANDARDIZATION OF THE GOVERNANCE MECHANISMS: THE INTERNAL INCENTIVE WITHIN THE CO-OPERATIVE BANKING GROUPS

Besides the external incentives depicted above, or interacting with them, there are also several internal incentives that explain the standardization in the governance and in the business model of the co-operative banking groups, especially in France.

### TOWARDS A STANDARDIZATION OF THE MODEL OF GOVERNANCE?

According to the French Central Bank (2006), corporate governance can be defined as « the way the power relationships are organized between all the components of a company »; according to this institution, an appropriate one refers to “all the mechanisms ensuring the power equilibrium and a rigorous internal control” within the firm .

In contrast, the definition of the Walker review (2009) points out that “the role of corporate governance is to protect and advance the interests of shareholders, through setting the strategic direction of a company, and appointing and monitoring capable management to achieve this”. This view, which has become the dominant one since the 1990-2000’s, puts forward the market as the optimal way to reach an efficient allocation of resources in the economy, to coordinate all the individual decisions, thanks to the providing of helpful and appropriate signals. Achieving this goal needs to ensure market efficiency, and to delegate the power to shareholders in a joint-stock company. Indeed, as “residual claimants”, they are naturally induced

to maximize the value of the firm, and promote its growth and development.

However, shareholders are also encouraged to take risk, especially in *public limited companies (plc)* where compensation is directly linked to the profitability of the bank. It is well known (Merton, 1974) that shares can be considered as options on the assets of a firm, with an exercise price equal to the value of the debt of this firm. Consequently, as an option, the greater the volatility of the relying asset, the higher will be its price on the market. Top executives (the “agents” to which the power has been delegated, if we refer to the agency theory) will therefore be lead to manage the assets of a firm in the interests of the shareholders thanks to appropriate incentive schemes (bonuses, stock options...).

However, incentives in risk-taking in the banking industry may potentially have much more systemic consequences than in other specific industries. Corporate governance in the banking sector has to cope and to comply with a prudential regulation, whose objective is to contain the systemic risk. “A critical balance has to be established between, on the one hand, policies and constraints necessarily required by the regulator and, on the other, the ability of the board of an entity to take decisions on business strategy that board members consider to be in the best interests of their shareholders.” (Walker, 2009, op. cit.)

In practice, the recent financial crises have proven that a balance between an efficient prudential regulation and the market regulation dismally failed: the logic of shareholder value and the incentives in risk taking became predominant. At the same time, internal models (Internal Rating, RAROC, VaR measures...) have been promoted to avoid distortions of competition or to be compatible with the return on equity requirement on the regulatory (and economic) capital. This finally contributed to shrink the whole bank governance standard towards a single “me-too” *corporate* and *plc* model, with little room left to other sorts of business model.<sup>9</sup>

Due to the importance of the co-operative banks in the French banking industry, this evolution might have been different in France. Actually, their status gives them the opportunity to resist better against this standardization and the shareholder value model, in order to maintain a different kind of governance, relying on the interests of their client membership. Because member shares are

<sup>9</sup> Islamic banks and m(MFI) experienced the same trends of osmosis and had to bend considerably to this homogenisation process, thus making them even more hybrid alongside the co-operative banks.

not listed and because the control is kept “inside” the co-operative group, the threat of take-over bid on the market does not exist ; this should theoretically avoid the need for the managers to comply with the shareholder value model.

However, it seems the situation of the French co-operative banking groups during the recent crisis was not really different from the one prevailing in the joint-stock banking groups; moreover, as mentioned below (cf. 4.), their resilience to the crisis was not as high as it would have been expected. Among the reasons that should be put forward, is the internal hybridisation of the co-operative banking model.

### THE INTERNAL HYBRIDIZATION OF THE FRENCH CO-OPERATIVE MODEL

By contrast to the external transformation of British building societies (in the 1990s) into joint-stock banks, the hybridization of the French co-operative banking model has been endogenous. This happened through the purchase of joint-stock banks<sup>10</sup> (since the mid 1990s, such as Indozuez, Credit Lyonnais, Natexis, etc) thanks to accumulated reserves by the co-operative banks. Beside the co-operative network itself, which is the core of the group, those banks and other financial subsidiaries have been integrated into large universal co-operative banking groups, with listed vehicles on the market (cf. Appendix 1): either a holding subsidiary, in case of Banque Populaire, Caisse d'Épargne or Credit Mutuel, either the Apex in case of Credit Agricole. Moreover, a large part of the *operating income* does not come anymore from non interest revenues (cf. Appendix 1 and 2), but from fees, commissions and activity on *CIB*, trading and derivatives. Yet, these changes have led the co-operative groups themselves to adopt some of the characteristics and standards of their joint-stock subsidiaries (Gurtner, Jaeger, Ory, 2009).

Although the majority shareholders of the listed vehicles within these co-operatives groups are the co-operative banks themselves, it seems that their behaviour as a shareholder was not very different than the one of conventional banks. They aimed to maximize the value created in these subsidiaries and have encouraged (or at least, not discouraged!) the risk taking. Nevertheless, while the rationale of a co-operative could be to share such created value with all member/customers (thanks to some rebates or refunds, via an appropriate pricing

or improved services), profits have mainly been drained to the national level of the group, often to intensify the external restructurings, and sometimes to absorb losses during the recent crisis.

More generally, the hybridization of the co-operative groups, with the transformation of the central/national bank into a joint-stock company, with listed vehicles, with a large scope of incorporated joint-stock subsidiaries into the perimeter of activity, has deeply transformed the whole model and has given rise to a shareholder value logical of governance. In practice, it has also led the control of the group to move from the periphery (the local/regional co-operative networks) to the Apex (the central body, which has not a co-operative status anymore).

The « perversion » of the original co-operative logical may be explained by the relative weakness of the control. In practice, the local member/customers have nowadays few possibilities or incentives in monitoring the managers at the national level of the group. Therefore, the managerial discretion may be more important in such co-operative groups than it was previously (within smaller and more simple co-operative banks), or than it is in conventional *corporate* or *plc* banks.

Moreover, this evolution has somehow been made easier by the prudential regulation, which relies on the central body of the consolidated group to be implemented.

### 3.3 THE COMPLIANCE WITH THE PRUDENTIAL REQUIREMENTS: AN OPPORTUNITY FOR THE “CENTRAL BODY” IN A CO-OPERATIVE GROUP?

Since the implementation of Basel II, the necessary compliance with the prudential regulation has been confirmed by an increase of the role of the Apex (or central body) at the consolidated level of the groups. The prudential requirements now legitimize the reporting of information from the local/regional banks, the implementation of internal risk models impulsed by the national level of the group, and even sometimes the settings of commercial targets or practices to be reached. Thus, by similarity with what exists in conventional *plc* banks, the Apex in the French co-operative groups increasingly plays a double role: to centralize the information, and to spread (or impose) the new standards and rules over the local/regional banks; whereas, paradoxically, the latter are supposed to be the ones to hold the power of control.

In practice, whatever it concerns the credit, market, or operational risk, the French co-opera-

<sup>10</sup> For example: Credit Industriel et Commercial (Crédit Mutuel), Crédit Lyonnais (Credit Agricole) ; Coface and Natexis (Banque Populaire), ...etc (ORY J.N, E. GURTNER & M. JAEGER, 2006a).

tive banking groups have searched for the agreement from the French prudential Authority to implement some internal models, as allowed by Bale II and the European Directives. Those internal models aim to assess and to measure the risk exposure at a consolidated level (the “group” level), and are supposed to allow the requirement in regulatory capital to be reduced. If we consider the credit risk management (with the implementation of the IRB<sup>11</sup> approach and the need to calculate the credit loss parameters, or with the use of a Var-credit measure) or the operational risk management (Lamarque & Maurer, 2009), it is obvious that an appropriate process requires the building of large databases. Of course, this standardized approach can not be led by each of the local/regional co-operative banks.

While these arguments may justify in themselves the increasing role of the central body in the French co-operative groups, it is reinforced by the fact that the prudential authority is requiring only “one counterpart” to speak with, at a consolidated level.

Consequently, the external standardization tends to justify and reinforce the internal standardization in the large co-operative groups. Certainly, the interaction between the external and the internal governance is growing (Alexandre and Bouaïss, 2009), but at the expense of the specific features of the co-operative banks. Actually, it is an issue to know whether these standardized management practices are still compatible with an individual customer-approach and with the independence, so far claimed by the co-operative banks.

### THE STANDARDIZATION IN FINANCIAL ANALYSIS METHODOLOGIES AND IN PERFORMANCE MEASURES

Generally speaking, the standardization also involves the ability of “dominant” financial institutions to spread their methodologies and tools, and to succeed in having these ones fully adopted in the entire banking industry. For illustration, the financial analysis approach is nothing specific to co-operative banks, and tends to be applied whatever is the status, although it is more appropriate in its goal to a joint-stock bank (3.4.1). Furthermore, some internal methodologies and models are increasingly applied in some co-operative banking groups, despite the fact they are more suitable to a shareholder relying governance model: this is the case for the RAROC approach (3.4.2)

### THE STANDARDISED FINANCIAL ANALYSIS APPROACH

Although the objectivity of the French Central Bank can not be questioned in any case, this institution has provided the financial industry with a standardized financial analysis approach (cf. *Analyses Comparatives*, annual publication), not very different from the one used by other analysts or database providers (Fitch, Bankscope, Bloomberg...). In itself, this methodology is convenient to be applied to each bank, whatever its legal form. However, it brings incentives that are hardly in line with the “social aim” of a co-operative. Indeed, it is a “step by step approach”, firstly relying on intermediate balances, used to build different kinds of efficiency ratios, and finally leading to the *net result* and the *financial return ratio* (ROE: *return on equity*).

If we focus on the latter ratio (*return on equity*), watching all the steps and components that may explain its building and its evolution, it is easily understandable that the *cost to income* or the *global intermediation margin* can be burdened by a “co-operative behavior”. In case a co-operative bank aims to share the added value with its member as a *customer*, and not only as a *share-owner* (this is the twin identity claimed by the co-operatives!), the consequence is undoubtedly a deterioration of those indicators, so that the bank may be regarded as inefficient. Especially when a co-operative bank makes the choice to let the member/customer benefit from advantageous rates (on credits...); or to benefit from a better quality in services; or to develop an individual customer relationship relying on a lot of employees or branches at the local level. The only way for a co-operative bank to comply with such a financial analysis approach, without affecting downward its financial profitability and its ROE would be to allocate some refunds to the membership (in correlation with the use of the range of products or services provided by the co-operative). Yet, unlike what exists in Canada with the *Caisses Desjardins du Québec* and in *Caisses Populaires de l’Ontario*, refunds or rebates to the members have almost disappeared in France (except in Crédit Coopératif); and co-operative groups do not like this question to be advocated anymore. Moreover, in case a co-operative bank would behave as depicted above, the other banks would put forward the *unfair competition* argument. In contrast, a high *return on equity ratio* is regarded as proof of efficiency and justifies a high return in benefit of the shareholders in a joint-stock bank.

Consequently, the possibility for a co-operative bank to reward its membership as a customer, is more and more unlikely to happen with the stand-

<sup>11</sup> IRB : Internal Rating Basis

ardization of the financial analysis approach. And so it is with the mimetism behaviour from the co-operative banking groups, to reach what is called “a high efficiency”. Then, the only possibility for the member is to be rewarded as a “capital owner” of the bank, but this opportunity is legally and statutorily capped. Anyway, it does not allow to have the member the twin identity he is expected to have.

Besides the financial analysis approach, which is an incentive for a bank (whatever its legal form) to comply with the conventional financial performance indicators, this is likely to be reinforced by the dissemination of the RAROC methodology to the whole banking sector, including the regulatory approach itself.

### THE DISSEMINATION OF THE RAROC METHODOLOGY

The Bale II agreements give a bank the opportunity to refer to internal ratings in order to evaluate the credit expected loss on a customer or counterparty (provided that its model has been validated by the prudential authorities). This internal rating based approach (IRB) is supposed to allow the banks to reduce the regulatory capital requirement.

Yet, the underlying logic of the IRB methodology is to tie the customer’s risk (assessed by the rating) to the credit prices<sup>12</sup>. If fully implemented, it becomes quite similar to the RAROC<sup>13</sup> approach (already used in the French co-operative banking groups), which aims to assess the risk-adjusted profitability and return of a bank customer.

While the RAROC model may be regarded as a proper risk management principle and tool, it also leads to a normative process: shall it be still possible for the local/regional co-operative banks to continue their relationship with their core member/customer (farmers, SMEs, associations...) without putting aside the individual approach, and without being forced to charge rates and margins (given the fact that these customers are not specifically associated with high ratings). Or will the risk-adjusted pricing approach be decisive in the next future? In the latter case, the central body of the group will certainly encourage the co-operative network (local/regional banks) to widely adopt the RAROC approach, in order to comply with the shareholder return requirement (especially, thanks to a feedback from the created value by the co-operatives to the listed vehicle of the group, thanks to the certificates

of deposits hold by the Apex or the holding subsidiary).

This is an open-ended issue, at least until the member shares are still considered as regulatory capital, and until the capital reserves in the co-operative groups keep important enough. Indeed, the member return requirement on capital is less than the shareholder’s one, which makes it possible a larger leeway for the co-operative groups.

In summary, it seems that both the external changes in the regulatory or the institutional environment, and the internal changes implemented within the (co-operative) banking groups have led the whole banking industry to predominantly align with the shareholder value standards. Thereby, not only the corporate governance tends to be standardized; so is it for the incentives in risk taking and the behaviors in these large co-operative groups.

### AN INCREASE IN RISK-TAKING IN THE FRENCH CO-OPERATIVE GROUPS?

Given that the incentives and constraints of the co-operative banks are theoretically different from those of joint-stock banks, one could have expected the first ones to be more resilient to the recent financial crisis. In fact, this assumption is hardly valid, if one takes into account not only the perimeter of the local/regional banks, but also that of the whole co-operative group. The risk-taking in conventional *plc* and co-operative banking groups seems to be much more similar during this crisis than it was during the 1990’s, at a time where the first ones were already facing a banking crisis. Several efficiency and risk ratios tend to confirm this claim.

Several indicators have been downloaded, either from the *Analyses comparatives de la Commission Bancaire*, either from the *Bankscope* database (Bureau van Dyck) or the annual reports. The first ones are aggregated data, and were built by the French prudential authority, according to a difference in the legal form (co-operative *versus* joint-stock, cf. Appendix 1). They cover the first banking crisis (1992-96), at a time when the large co-operative groups were not yet existing, since the major restructurings didn’t yet happen (*i.e.* only the perimeter of the different co-operative banks is included). In contrast, it seems no more appropriate to take into account only the co-operative network perimeter to study the last crisis; so that the data from *Bankscope* are built for each of the French co-operative groups (co-operative and joint-stock

<sup>12</sup> Each customer is associated with an internal rating and a risk level, and may be regarded as a « regulatory capital user”, since the risk has to be covered by this capital.

<sup>13</sup> RAROC: risk adjusted return on capital.

subsidiaries), *versus* the conventional *plc* French groups (joint-stock).

Different kinds of ratios have been compared, whenever it was possible: solvability ratios (regulatory ratio; capital/total assets), a leverage ratio (debt/capital), several risk ratios (cost of risk/net banking income; loan loss provisions/net interest revenues; impaired loans/gross loans, loan loss reserve/impaired loans). Also some profitability ratios (return on assets; return on equity), margin ratios (net interest margin) or productivity/cost indicators (cost to income ratio). They are summarized in Appendix 1 (2008) and in Appendix 2 (2009-2010). Some comparisons with other co-operative groups in selected European countries can be found in Appendix 3.

Considering the 1990's banking crisis, it was said that the French co-operative banks, not yet part of large hybrid groups, were very resilient and were a strong fence and a stabilizing factor for the banking industry (Gurtner, Ory, Jaeger; 2002). At that time, their economic, financial and commercial efficiency was higher than that of the joint-stock banks. Beside a good operational efficiency, these results were especially due to a better risk management (cf. *cost of risk/gross revenue*, in Appendix 1). Moreover, they could benefit from sustainable interest margins, after having their market shares increased. They were very well capitalized, with a large amount of reserve, very useful for the oncoming restructurings (Indosuez Bank, Credit Lyonnais, Crédit Industriel et Commercial, COFACE, NATEXIS, and other joint-stock companies were being their target). Actually, until the 2000's, French co-operative banks seemed to be able to conciliate a good efficiency and an appropriate risk management (Ory, Gurtner, Jaeger, 2006).

The situation is quite different if we compare the situation of the five large banking groups in France in 2008 (Appendix 1): two of them are conventional public listed companies (BNP-Paribas and Société Générale) and three of them are majority hold by a co-operative network (Crédit Agricole, Banque Populaire-Caisse d'Épargne and Crédit Mutuel). The latter have also been affected by the crisis and for some of them, even more deeply: their financial profitability (*ROE and ROA*) have collapsed, while the one of Société Générale and BNPP still remained positive and higher (also relatively true for CA group, after the latter experienced large losses in 2007). The *cost to income ratio* has increased, to reach a higher level for each of the co-operative groups than for the joint-stock groups. The *cost of risk (loans, securities and other credit impairment charges/operating income)* is at least as important in the co-operative groups as it is for BNPP or SG.

Moreover, for two co-operative groups (CE and BP), the cost of risk is even higher than the *gross revenue*. Yet, the capitalization of some the co-operative groups kept more important if we consider the (*equity/assets*) ratio but not anymore the *regulatory capital ratio*; with consequences on the *leverage ratio*, which is no lower in the coop. groups. However, despite the *cost of credit risk* and the magnitude of the *provisions regarding the interest revenues*, some risk management ratios still tend to prove that the choice has been made to better handle the credit risk in the co-operative groups, which are in line with a safe behaviour, and which was allowed by the importance of the reserves (cf. *unreserved impaired loans/equity* for CA, CE or BP).

Since 2009 (Appendix 2), the situation has improved, as well for the French co-operative groups as for the conventional *plc* banking groups around the world. Nevertheless, whereas the global performance of Societe Generale was not that high in 2009 (see *ROA, ROE, cost to income*), but higher in 2010, it is obvious that the most resilient French group has been BNPP, and not a co-operative one. Despite Credit Mutuel seems to have relatively well recovered (in terms of efficiency ratios), the financial crisis effects are still being felt: globally speaking, the co-operative groups have lost their superiority in terms of capitalization (*equity/assets; regulatory capital ratios*). The operational (*cost to income, net income/Operating income*) or commercial (*interest margins*) performance is not better anymore. Despite the good behavior of Crédit Agricole in properly hedging credit risk by a large amount of reserve, the global risk management seems no more to be more accurate (as it was in the 1990s) in the French coop. groups, and finally, not very different than the one in joint-stock groups (cf. the ratios of *credit risk and unreserved impairment loans/equity*, but also *losses in trading and derivatives/operating income* in 2008 and 2009). Furthermore, The global efficiency of BPCE (after the merger of the central body of Caisse d'Épargne and Banque Populaire) has particularly been affected, as it is the only one to still have in 2009 a negative *net income*, a negative *ROE* and *ROA*, to still exhibit an important *cost to income* ratio and to suffer from large *cost of risk* (higher than the *gross revenue*). We must notice the recovering in 2010, but also the part dedicated to the non interest operating income, confirming the hybridization feature (explaining this volatility).

Finally, it is obvious that the sharp drop in the results and in the efficiency of the co-operative groups are mainly due the Corporate and Investment Banking (CIB) activity embedded within

these groups, while the co-operative banks themselves have shown a better resilience, and have not been deeply affected in their activity (Ory, Lemzeri, 2012). This was true at the beginning of the financial turmoil for *Crédit-Agricole-CIB* (previously *Calyon*), but the subsidiary relatively succeed in reacting quickly and giving up the riskier activities. Unfortunately, this was not the case for *Natixis*, the holding-subsidiary of *Caisse d'Épargne* and *Banque Populaire*. The direct exposition to risk, the collapse of its monoline CIFG (removed from the scope of *Natixis*, to be directly recapitalized by the central body of *Caisse d'Épargne* and *Banque Populaire*, thanks to the reserves of the co-operatives...) are mostly the reasons of the losses experienced par the CE and BP groups (Ory, Lemzeri, op. cit.).

Finally, was is the behaviour of French Co-operative groups specific, or could we make the same comments on the relatively poor resilience in time of crisis for other European groups or Canadian ones? When considering some specific examples in European countries (Appendix 3) or in Canada (Appendix 4 and Addendum), where some common features also allow speaking of "coop. groups" and not only of "coop. networks", the answer is not unique. At first, the hybridization characteristics are not the same everywhere. Whereas two other coop. groups own a listed subsidiary (*OP-Pohjola* with *Pohjola Bank*, in Finland; *Raiffeisen Group* with *Raiffeisen International*, in Austria), some other have chosen not to have any listed vehicle (*DZ Bank*, central institution of the *Volksbanken* in Germany ; *Rabobank* in Netherlands), although the apex has a *corporate* legal form, and not a co-operative one. The importance of *non interest operating income/operating income* is also different.

Whereas *Rabobank* seems to have a well balanced activity (according to interest or non interest revenues), with low volatility even in time of crisis, the situation was different for *OP Group* or *Raiffeisen*, but above all, for *DZ Bank* (which has experienced a huge amount of losses on trading and derivative activity in 2008). Globally speaking, *Rabobank* seems to be the most resilient one: some indicators have even increased in 2008 or 2009 (*cost of income, net interest margin, capitalization*), although some *credit risk ratios* reveal the existence of the crisis.

Despite lower performance in 2008 (*cost to income, loss on derivatives and trading, ROE and ROA*), the Finnish group managed to still keep well capitalized and to properly hedge the credit risk (see *impaired loans/gross loans; unreserved impaired loans on equity...*). The recovering in 2009 seemed to be confirmed.

Due to its business model (with international and CIB activity as in the French coop groups), the situation of *Raiffeisen* group is not so clear. Despite the relative resistance of commercial or some operational efficiency indicators (*cost to income, net interest margin, return on equity*) and proper capitalization ratios, the group has faced a sharp decline in 2008 (*ROA, Net Income/Operating Income*), mainly due to the decrease of the *non interest income*, and the increase in the *cost of risk* (cf. *Loan loss provision/net interest revenues; unreserved impaired loans/equity*). Nevertheless, despite some similarities in the organization of the group, the effect of the crisis seemed more handled than it was in two of the French groups; or in the *DZ Bank*. Despite a different model, with no listed subsidiary, the *Apex* of the German group seemed to be the other one to be deeply hurt by the crisis. The main reason has to be found in the sharp fall in non interest income activity and its losses on trading and derivatives. The importance of the impaired loans has also to be noticed (with relative levels quite similar to the ones noticed for French coop. groups), with a significant part of them being unreserved. Therefore, the magnitude of the market and credit risk (despite the resilience of the local German coop. banks) explains the sharp decline in the efficiency indicators (a huge increase in the *cost to income*, a negative *net income, ROE* and *ROA* in 2008), and also the very slow recovering in 2010. As a consequence, the capitalization ratios have also decreased. If we consider the magnitude of the impact, the German coop. group is probably the one which has been hurt as deeply as some of the French groups.

## ADDENDUM: THE CANADIAN BANKING SYSTEM AND THE EFFECT OF THE CRISIS

The Canadian banking system is one of the most concentrated of all OCDE countries. The 'Big Six'<sup>14</sup> account for 90% of the market share of the Canadian industry and play a vital role in the Canadian economy<sup>15</sup>. Banks and natural resources companies account for the bulk of the Canadian stock market capitalization. These institutions offer a wide range of financial services, from credit to investment, from private banking to custody and fund administration. They own a vast network of asset gathering and distribution across the country and most are all active on the US market with some activities in the Caribbeans, Latin America and Asia. Nearly half of their revenue comes from outside of Canada.

In Quebec, credit unions, known as "caisses populaires" have set up a different type of financial institution, the Mouvement Desjardins, with quite different features based on co-operative governance. It grew over the last century from a population that was poorly served by other financial institutions. The group that ranks first on its home market is built on a network of co-operative services regulated under Quebec's legislation financial services co-operatives. While it would normally be designated as a co-operative bank in Europe, it can not operate under that label in Canada. Desjardins operates a network of subsidiaries that are collectively owned by local and regional credit unions and which provide a range of services comparable to those offered by chartered banks. However, unlike banks, Desjardins can also sell insurance services across its network of 430 caisses populaires.

In 2008, Tier 1 capital adequacy ratios of the Canadian institutions ranged from 9.3% to 13.4% and their shareholders equity ratio stood between 11.1% and 15.4%, exceeding the minimum Basel threshold. Those ratios continued to climb in 2009 to 10.7% to 15.9% for the Tier 1 ratio and 12.9% to 16.1% for the shareholders' funds ratio. The dispersion amongst institutions widened in 2010 with the Tier 1 ratio spanning from 9.0% to 17.7%, doubling the spread of 2009 (8.7% versus 4.1% in 2009), while the shareholders' fund ratio dispersion expanded more slowly with a range of 13.8% to 18.7%, a difference of 1.7% against 2009. In both cases, Canadian institutions stood well over the Basel threshold<sup>16</sup> (see Appendix 4: Canadian Banks Financial performance 2008-2010).

The accompanying table (Appendix 4) shows the strength of prudential ratios of the Canadian co-operative banking system compared to their peers in France. However, they do not outperform the chartered banks on the domestic market but correlate well with the overall trend. Canadian institutions enjoy much higher capital reserves than what is required by the Basel Accords and rely much less on leverage. The same applies to the co-operative bank that seems to be more risk averse with a much stronger appetite for capital adequacy that is required under Canadian and Quebec regulations, despite the fact that its redeemable 'social share' is only worth \$5 3. These high bank reserves proved to be helpful when market crashed in 2008-09. Since Canadian institutions were well capitalized before the crisis, they were able to weather the storm more easily, even though three of them, CIBC, National Bank and CIBC, together with Desjardins, suffered heavy losses due to the asset backed commercial paper freeze in Canada in August 2007 and the securitization market in the US.

<sup>14</sup> Royal Bank of Canada, CIBC Bank, BMO – Bank of Montreal, Toronto-Dominion Bank (TD), Bank of Nova Scotia (ScotiaBank) and National Bank of Canada (BNC).

<sup>15</sup> For more information, please refer to the following research: Jason Allen and Walter Engert, Department of Monetary and Financial Analysis, Bank of Canada, « Efficiency and Competition in Canadian Banking ». *Revue de la Bank of Canada Review*, summer 2007. Allen, J., et Y. Liu (2005). « Efficiency and Economies of Scale of Large Canadian Banks », Working Paper 2005-13, Bank of Canada, and *Canadian Economic Review*, vol. 40, no 1, 2007, p. 225-244.

<sup>16</sup> According to Basel 2, a minimum threshold for Tier 1 of 4% for shareholders equity is required, although most investors insist on a high threshold of 10%, while Tier 1+2 capital was set at 8% for total shareholders' funds. The targets set by the Canadian Office of the Superintendent of Financial institutions were set at 7% and 10% respectively.

## CONCLUSION: THE SITUATION OF CO-OPERATIVE BANKS

The co-operative banks were established at different periods in different countries for the same reason: the foster the access to credit and to saving services. Their governance was based on fundamental values:

- A democratic participation under the principle of one person one vote;
- A sharing of profits in the form of rebates to members;
- A reserve that can not be distributed.

Are we going to see a new step in their development, with a threat on those values and goals?

Certainly, there are some incentives in the standardization of management practices and governance. Some of them come from the regulatory environment of the banking industry, because of rules developed without regard to the co-operative specificity.

Would there be a stage in their life cycle that would justify breaking off with those principles?

This is what regulators seem to believe by imposing the same requirements as those for shareholder-based institutions under the logic of systemic risk and prudential rule management. In effect, we must recognize the process of hybridization and standardization amongst co-operative banks which, over the last years, have integrated into their business and governance models several practices conceived and developed by shareholder-based groups. Some of those practices have migrated towards co-operative banks under the aegis of new regulation, without any consideration for the specific nature of co-operative banks.

However, one should also recognize that several other practices were adopted and transferred voluntarily within co-operative banking groups by their executives. This reflects a phenomenon of imitation and isomorphism of practices implemented by other organizations that are often competitors, a phenomenon well identified by the theory of institutional sociology or organisations (Meyer et Rowan, 1977), (DiMaggio et Powell, 1983).

These phenomena of hybridization and imitation can best be explained by several institutional factors, favorable to the shareholder-based model of joint-stock companies. Such dominant mode dictates several rules, means and ways in many countries and conditions the intervention strategies of regulators and institutional policies, which all tend to privilege certain types of arrangements to the detriment of others. In effect, the intellectual

and social context in which theoretical debates are taking place exerts a large influence on the particular form and content of conceptual innovation and strives to gain support from a wider community (Thomson et McHugh, 2002; Westwood et Clegg, 2003).

All the different models of governance, all the different organization schemes are not easily understandable (and sometimes suspicious) to the regulator, or to some other institutions, because the regulator is also influenced and used to comply with the dominant agency theory and the shareholder value principles. We believe that it is the fate of other forms of governance, different from that of the shareholder-based model, to escape the regulators' rational. This can be explained by the influence over the last 30 years of the agency theory fundamentals and the concept of shareholder value as a mean to achieve better governance within the banking industry; without any consideration, once again, for the specifics of the co-operative banks. The barriers that separate different forms of organizations may be raised, but can also quickly be destroyed. Thus, it influences the range of divergence and convergence between different forms of organizations (Powell, 1991). We should question whether the agency theory, linked to the evaluation of financial performance and to the governance of listed corporations, is relevant to co-operative banks. The real challenge is to reconcile stakeholders and to stop considering the agent/principal relation as the sole benchmark to value and explain and control the equilibrium of governance models in the co-operative and mutual sphere.

We need to look elsewhere, especially within the theory of property rights, the '*raison d'être*', the distinct character and the recognition of differences between possible forms of organizations and their governance mode. The co-operative mode should be distinctive by its way to distribute profits rather than by making them. The transformation of co-operative banking networks into major financial groups contributes to mitigate such distinction and to erect structural hierarchies with managerial control, without any apparent accountability towards members. Time may have come to consolidate their regulatory position by recognizing once and for all the members' share units as truly equivalent to shareholders' equity and the principle of inalienable reserves.

As a consequence, would not the dynamics of change imposed by the process of standardization and homogenization of major banking groups, co-operatives or shareholder-based, lead to an increase of systemic risk, by lowering the diversity of organizations in their resilience to risks? That is the ques-

tion that we have raised at the start of this article. Without having responded entirely to it, we have identified several changes, both at the organizational and institutional level, that seem to confirm the homogenization of major banking groups, whether shareholder-based or purely co-operative, and thus, an effect that does not contribute in reducing systemic risk in case of a crisis. The whole standardization process in the banking industry may be by itself a source of risk: by reducing the diversity, it also tends to increase the systemic risk in face of a crisis. We need to question such regulatory logic that forbids diversity, especially at a time when bio-

diversity in several sectors of life and earth sciences is being widely praised. Would the (bio)diversity be less important and less necessary in management sciences than in other sciences? Would management be behind several other sciences?

But the challenge also lies inside the co-operative banks.

With members more and more distant and ignorant of the strategic stakes associated with the leaders of major co-operative groups, the challenge is about resolving this problem of governance, if we want co-operative banks to contribute to a better systemic risk management.

## APPENDIX 1: FRENCH CO-OPERATIVE NETWORKS/GROUPS VERSUS FRENCH CONVENTIONAL PLC GROUPS

	2008 (group perimeter of activity)						1992-1996 (aggregated data*)	
	SG	BNPP	BP	CA	CE	CM	joint-stock	Coop.
Assets (2007, Bill. EUR)		1695	348	1540	601	553		
Coop group or Joint-Stock	JS	JS	C	C	C	C		
<b>Hybridization indicators</b>								
Listed vehicle	plc	plc	Yes	Yes	Yes	Yes		No
Floating part on market			35%	46%	35%	8%		
Non Interest Inc./ Operating Inc. (%)	60	47	44	28,4	43	53		
Gains on Derivatives and Trading/ Op. Inc. (%)	21	- 41	- 11	5	- 13	0,9		
<b>Efficiency</b>								
Return on Equity (%)	7,7	5,8	-2,1	4,2	-9,8	1,7	-2,2	6,24
Return on assets (%)	0,2	0,2	-0,1	0,2	-0,3	0,1	-0,07	0,32
Net interest margin (%)	0,83	0,81	1,16	1,28	0,83	0,75	1,61	3,29
Gross Rev./Op. Inc. (%)	28,9	32,7	13,3	20,8	-2,4	20,7	22	32
Operating profit / Operating Income (%)	16,8	11,7	- 3,2	1	-19,6	4,1	-0,2	22,6
Net Income/ Operating Income (%)	9,2	11	- 6,5	6,4	-23,9	5,2	-4	9,9
Cost to Income (%)	71	69,2	86,7	75,2	102,4	79	78,1	69,5
<b>Capitalization</b>								
Equity/total Assets (%)	4,8	2,8	6,8	3,9	4,9	4,3	3,3	5,11
Equity/liabilities (leverage)	3,8	2,9	5,4	4,1	3	4,6	NA	NA
Regulatory Capital ratio (tier 1 + 2) (%)	11,2	11,1	9,4	9,9	9,6	NA	NA	NA
Regulatory Tier 1 (%)	8,4	7,8	7,7	8,4	8,1	9,8		
<b>Credit Risk</b>								
Cost of risk/Gross Rev. (%)	47	70	CoR>GR	70	CoR>GR	80	22,2	9,4
Loan loss provisions / net interest revenues (%)	29,2	26,7	29,9	22,9	30,1	35,4	NA	NA
Impaired loans/ gross loans	3,7	3,7	3,7	2,9	1,6	3	NA	NA
Impair. Loans/ Equity (%)	35,9	32,2	34,4	29,8	27	35,8	NA	NA
Unreserved Impaired Loans/equity (%)	13,4	8	10	3,1	7,4	11	NA	NA

## APPENDIX 2: COMPARISON OF PERFORMANCE AND RISK: FRENCH COOP. VS FRENCH JOINT STOCK (GROUP PERIMETER OF ACTIVITY)

2010 / 2009	SG	BNPP	BPCE	CA	CM	SG	BNPP	BPCE	CA	CM
Non Interest Inc./Operating Income (%)	54	44	46.4	32.3	NA	47	47	32.4	30	45.7
Gains on Derivatives and Trading/ Op. Inc. (%)	18	10.5	5	1.7	NA	7	22.5	3	0.8	-2.5
<b>Efficiency</b>										
Return on Equity (%)	8.8	11	8.1	5.38	NA	2.5	9.3	-0.2	4.27	6.8
Return on average assets (%)	0,4	0.4	0.4	0.24	NA	0.1	0.3	-0.01	0.18	0.32
Net interest margin (%)	1.24	1.3	1.32	1.49	NA	1.2	1.1	1.31	1.4	1.4
Net Income/ Operating income (%)	16	20.9	17	12	NA	5	15.9	-0,4	9.7	13.9
Cost to Income (%)	61.6	60.5	68.75	61	NA	70.2	57.5	84.4	62.4	61.5
<b>Capitalization</b>										
Equity/total Assets (%)	4.5	4.3	4.9	4.47	NA	4.6	3.9	4.7	4.4	4.3
Equity/liabilities (leverage)	4,8	4.5	5,2	4.78	NA	4.8	4.1	4.95	4.7	5.7
Regulatory ratio (tier 1 + 2) (%)	12,1	14.7	11.6	11.7	NA	13	14.2	10.9	10.9	NA
Regulatory Tier 1 (%)	10,6	11.4	10.1	10.3		10,7	10.1	9.1	9.7	11.3
<b>Risk</b>										
Cost of Risk/ Gross Revenue (%)	40	28	22.7	38.9		87	47.5	CoR> Gr. Rev	54.8	45.3
Loan loss provisions / net interest rev. (%)	28	20	11.2	21	NA	37	36	22.2	26	32
Impaired loans/ gross loans (%)	6.3	3.7	3.7	3.16	NA	6.2	5.4	3.6	3.2	4.2
Impaired loans/equity (%)	51,8	49.2	38.9	37		50,8	47.8	39.7	31.8	43.3
Unreserved Impaired Loans/ Equity (%)	21,8	18	17.1	5		23,9	16.2	16.7	2.2	16.4

### Legend, Appendix 1 and 2:

SG: Société générale

BNPP: BNP-Paribas

BPCE : Banque Populaire/Caisse d'Épargne

CA : Credit Agricole

CM : Credit Mutuel

CE : Caisse d'Épargne

BP : Banque Populaire

The *BPCE group* comes from the merger of the central bodies of Banque Populaire (BFPB) and Caisse d'Épargne (CNCE) in 2009

**Source: Appendix 1 and 2** Bankscope

Except: \* Aggregated data

From Commission Bancaire,  
 Banque de France ed.

APPENDIX 3 : EUROPEAN COMPARISONS	Rabobank Group			DZ Bank Group (conso)			Raiffeisen Group (RZB conso)			OP Group		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Total assets 2007, Millions EUR	570 500			441 340			137 402			65 715		
hybridization features												
Listed vehicle within the group	No			No			Yes (Raiffeisen Intal)			Yes (Pohjola Bank)		
Floating part on stock market (%)	Not Applicable			Not Applicable			22%			75 % (return rights) Majority vote: coop. banks		
year	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
Non interest inc./Operating Inc.	35,65	35,20	41,86	40,89	-96,08	30,01	42,47	17,42	32,54	47,83	34,46	53,08
Net Gain (Losses) on trading and derivatives/Op. Inc. (%)	0,71	5,51	NA	25,35	-128,80	-7,30	10,06	0,40	2,17	5,17	-2,45	1,66
Efficiency												
Return on Equity (%)	6.4	8.5	8.76	3.71	-12.01	8.21	6.29	5.31	15.81	5.93	4.07	12.76
Return on average assets (%)	0.38	0.47	0.47	0.09	-0.27	0.21	0.37	0.29	0.94	0.43	0.31	1.18
Net interest margin (%)	1.4	1.51	1.25	0.6	0.69	0.65	2.47	3.03	2.52	1.49	1.81	1.78
Net income/ operating income (%)	19.75	20.9	24.8	8.53	-0.79	23.2	9.71	8.90	27.29	16.63	12.28	33.18
Cost to Income (%)	55.6	57.8	68.4	61.18	168.15	66.93	47.66	64.18	60.65	68.37	76.11	54.35
Capitalization												
Equity/total Assets (%)	6.27	5.47	5.5	2.63	1.97	2.55	6.97	4.99	6.13	7.69	6.89	8.58
Equity/liabilities (leverage)	6.72	5.8	5.84	2.74	2.04	2.65	7.75	5.45	6.73	8.55	7.60	9.64
Regulatory capital ratio (tier 1 + 2) (%)	14.1	13,00	10.9	12,40	9,70	10,20	13,10	10,20	11,00	12,60	12,70	13,80
Regulatory Capital Tier 1 (%)	13.8	12.8	10.7	9.90	7.40	7.70	9.40	7.00	8.80	12.60	12.60	12.60
Credit Risk												
Cost of Risk/ Gross Revenue (%)	60,10	55,30	20,80	44,90	CoR:545Mns Gross rev: -1006 Mns	8,50	73,20	66,10	15,70	27,84	13,49	1,28
Loan loss provisions / net interest revenues (%)	24.3	14,00	3.9	27,49	8,50	3,96	66,67	28,69	9,20	16,87	4,92	1,24
Impaired loans/ gross loans (%)	2.2	1.5	1.1	4,30	3,67	3,29	8,03	3,14	3,37	0,67	0,56	0,71
Impaired loans/equity (%)	24.4	19.65	13.38	47.41	50.96	31.76	58.32	33.97	29.23	5.72	5.60	5.64
Unreserved Impaired Loans/ equity (%)	12.85	10.29	6.11	23,35	25,66	15,20	17,80	4,57	11,98	1,34	2,97	3,55

Source: Bankscope

## APPENDIX 4: CANADIAN BANKS FINANCIAL PERFORMANCE – 2008 - 2010

PRUDENTIAL BENCHMARKS	2008						
	<i>( in million \$ except for %)</i>						
	RBC	TD	Scotia	BMO	CIBC	BN	Desjardins
<b>Total assets</b>	723 859	563214	507 625	416 050	353 930	129 332	152 298
<b>Shareholder' equity</b>	31 398	33 234	22 144	19 304	14 016	6 563	10 651
Market capitalization	62 825	46 112	39 865	21 707	20 815	7 209	unlisted
<b>Total revenue</b>	21 582	14 669	11 876	10 205	3 714	3 953	8 373
Earnings before tax	6 005	4 413	3 950	1 981	-4 260	798	186
<b>Net earnings</b>	4 636	3 876	3 259	2 052	-2 042	2 024,4	77
<b>Tier 1 capital adequacy ratio</b> -Bâle II -%	13,00	9,80	9,30	9,80	10,50	9,40	13,40
<b>Shareholders' equity ratio</b> -Bâle II -%	11,10	12,00	11,10	12,20	15,40	13,20	12,90
Return on shareholders' equity -%	16,53	14,05	15,73	11,42	-14,77	10,83	0,74
<b>Credit rating</b> S&P Moody's	AA- Aaa	AA- Aaa	AA- Aa1	A+ Aa1	A+ Aa2	A Aa2	AA- Aa1

Source: Annual reports to end of calendar year of October 31st for federal chartered banks. The *Desjardins group* financial year closes on December 31st. This two months difference can weaken the comparability of data between banks and the co-operative institution in periods of significant cycle shift, as the case was over the period.

PRUDENTIAL BENCHMARKS	2009						
	RBC	TD	Scotia	BMO	CIBC	BN	Desjardins
<b>Total assets</b>	654 989	557 219	496 516	388 458	335 944	132 138	157 203
<b>Shareholder' equity</b>	37 252	40 279	25 326	21 552	14 449	6 699	11 535
<b>Market capitalization</b>	77 685	52 972	46 379	27 600	23 807	9 090	n.a
<b>Total revenue</b>	29 106	17 860	14 457	11 064	9 928	4 457	10 670
<b>Earnings before tax</b>	5 526	3 472	4 794	2 080	1 619	1 164	1 500
<b>Net earnings</b>	3 958	3 231	3 661	1 863	1 195	1 852,2	1 094
Tier 1 capital adequacy ratio- Bâle II -%	13,00	11,30	10,70	12,20	12,10	10,70	15,90
<b>Shareholders' equity ratio -Bâle II -%</b>	14,20	14,90	12,90	14,90	16,10	14,30	15,90
Return on shareholders' equity-%	11,53	8,79	15,42	9,12	8,40	13,75	9,86
<b>Credit rating</b> S&P Moody's	AA- Aaa	AA- Aaa	AA- Aa1	A+ Aa1	A+ Aa2	A Aa2	AA- Aa1

Source: Annual reports to end of calendar year of October 31st for federal chartered banks. The *Desjardins group* financial year closes on December 31st. This two months difference can weaken the comparability of data between banks and the co-operative institution in periods of significant cycle shift, as the case was over the period.

PRUDENTIAL BENCHMARKS	2010						
	RBC	TD	Scotia	BMO	CIBC	BN	Desjardins
Total assets	726 206	619 545	526 657	411 640	352 040	145 301	172 275
<b>Shareholder' equity</b>	39 477	43 795	28 210	23 218	15 958	7 657	13 440
Market capitalization	77 502	64 500	57 000	34000	30 724	10 927	n.a
<b>Total revenue</b>	28 330	19 565	15 505	12 210	12 085	4 484	11 685
Earnings before tax	6 968	6 012	6 084	3 571	4 012	1 323	1 917
<b>Net earnings</b>	5 322	4 750	4 339	2 884	2 479	1 343,7	1 455
Tier 1 capital adequacy ratio- Bâle II -%	9,00	12,20	11,80	13,50	13,90	14,00	17,70
<b>Shareholders' equity ratio -Bâle II -%</b>	14,40	15,50	13,80	15,90	17,80	17,50	18,70
Return on shareholders' equity-%	13,87	11,30	16,21	12,88	16,31	15,35	11,65
<b>Credit rating</b> <i>S&amp;P</i> <i>Moody's</i>	AA- Aaa	AA- Aaa	AA- Aa1	A+ Aa2	A+ Aa2	A Aa2	AA- Aa1

Source: Annual reports to end of calendar year of October 31st for federal chartered banks. The *Desjardins group* financial year closes on December 31st. This two months difference can weaken the comparability of data between banks and the co-operative institution in periods of significant cycle shift, as the case was over the period.

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# THE PERVERSE EFFECTS OF COMPLIANCE COSTS FOR THE LOCAL CO-OPERATIVE BANKS

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## INTRODUCTION

We aim to analyze the impact of banking regulation on the business model of co-operative banks. Banks exist because of information asymmetry between borrowers and lenders (Stiglitz and Weiss, 1981) and banks are there to tackle the problem as delegated monitors of the borrowers (Diamond, 1984). The importance of banks stems from the fact that they provide a monitoring service to investors at a considerably low cost, thus decreases the cost of financing for borrowers. In the run up to the Great Crisis started in 2007, there had been a general relaxation of the monitoring activity from a large part of the global banking system, mainly though not exclusively by Anglo-American institutions. Many institutions moved from the OTH model – ‘originate-to-hold’ – to the OTD model – ‘originate-to-distribute’. Furthermore, the OTD model was generally interpreted in the strict sense that originating banks would give away the underlying risk along with the securitized loan portfolio and this had the disastrous consequences we all learnt. The collapse in some credit markets highlighted that the presence of generalized OTD banks had dramatic results for the whole system. While

securitization has its merits in terms of risk diversification, only the model of the OTH bank is consistent with the informational advantage that banks have over the market. The cost of monitoring is reduced through the use of soft and private information (Scott, 2006). We can therefore recognize that only the OTH model is sustainable in the long run without arising systemic risk through the excessive use of securitizations and the assumption of excessive risks by banks and financial institutions.

Banking regulation exists to remedy market failures that can be traced to two main categories: 1) the risk of systemic crises in the banking sector, and 2) the inability of depositors to monitor banks (Santos, 2001). Both of these types of market failures emerged in all their seriousness in the Great Crisis, boosting a new wave of regulation after the deregulation of the banking sector in previous decades. The same banking regulation alone can explain the need for more sophisticated forms of regulation than those used for normal liquidity risks. These forms should be sophisticated enough to ‘survive’ in the way banks manage their risks (Dionne, 2003).

Since the start of the Great Crisis, the international banking system (and beyond) has been at the center of the debate to reform it, the same debate that led to the definition of new rules to which banks are already adapting. The reform process follows a long and tortuous course, but the current phase of re-regulation has given birth already to some important results as the new Basel Accord in the end of 2010 – called Basel III – that is perhaps the pinnacle of the iceberg of an entirely new round of bank regulation (D’Apice and Ferri, 2010).

The agreement, following the setting of the three pillars of the previous Accord (Basel II), aims to correct the critical points raised during the

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crisis. Banks will hold more capital and capital of better quality than in the past. The focus is moved to the Tier I Capital (minimum 6%) and the Common Equity Tier I (minimum 4.5%) for a minimum Total Capital of 8% of risk-weighted assets. The causes and the development of the Great Crisis have greatly influenced the Agreement. Among the main novelties with respect to Basel II, are the introduction of a) a 'conservation buffer' equal to 2.5% of total risk-weighted assets and comprised of Common Equity Tier I to ensure an adequate capital in periods of stress and losses; b) a 'leverage ratio' to curb excessive borrowing by bank institutions (a minimum Tier I leverage ratio of 3% is under test); c) a 'countercyclical buffer' to limit the pro-cyclicality of Basel II; and d) two liquidity requirements, the first ('Liquidity Coverage Ratio', LCR) to absorb shocks in the short term – i.e. 30 days – and the second ('Net Stable Funding Ratio', NSFR) to absorb shocks in the long term – over a period of one year.

However, it should be stressed that the current banking regulation and the new one, is designed around shareholder value banks (established mainly as PLCs, which aim to maximize profit) without taking into account the diversity that exists within banking systems with a strong presence of stakeholder value banks (that maximize the welfare of a set of subjects broader than just shareholders). Co-operative banks are a key component of this latter group of banks.

The effects of regulation differ depending on the risk profile of banks and the banking regulation and supervision should recognize that the approach 'one size fits all' is inappropriate (Klomp and de Haan, 2010). For example, the third pillar of the Basel Accord, which is based on the disclosure of information to subject banks to market discipline, for obvious reasons has a reduced power for co-operative banks while it is best suited to commercial banks, especially if listed. In addition, we must not forget that the current approach of regulation and supervision, focusing on some parameters, such as profitability, suited for shareholder value banks but not for stakeholder value banks, may distort the behavior of the latter banks pushing them towards the goals of shareholder value banks.

Empirical studies have shown that the regulation, if it focuses on 'changes' of the balance sheet of banks or on the structure of the banking system, is generally ineffective or even harmful increasing the fragility of the system. Two recent examples are the use of the mark-to-market approach of International Accounting Standards (later suspended during the Great Crisis) and the excessive use and con-

fidence on credit ratings and credit scoring in Basel II (Ferri, 2001). On the contrary, an effective regulation should focus on the behavior of bank managers and shareholders (Tchana, 2009). The ownership structure (and deregulation) has an impact on banks' risk-taking: there is an agency problem between managers who hold banks' capital (insiders) and outside investors (outsiders) holding capital but no management powers. The banks' portfolio, of which the insiders hold a certain amount of capital, typical of co-operative banks, is less risky than that of banks controlled by outsiders, typically commercial banks (Saunders et al., 1990).

The Great Crisis has highlighted the advantages and the importance of diversity in the banking system (Ayadi et al., 2010). The change of sentiment on co-operative banks considered before the crisis as outdated and inefficient institutions is a clear example. However, banking regulation, almost invariably, fails to recognize the positive role of diversification and instead increases regulatory requirements indistinctly, such as capital ratios, and creates new rules, such as liquidity ratios, for all banks. With the words of de Larosière (2011), Basel III "... may create new risks by favouring the development of the insufficiently regulated shadow banking system and by penalising a diversified universal banking model [the continental European universal bank] that proved resilient through the crisis."

Higher capitalization proved neither capable of reducing the likelihood of national banking systems experiencing the Great Crisis in 2008 (Caprio et al., 2010) – a less likely event for national systems with more restrictive regulation / supervision – nor of mitigating the fall in banks' stock prices when the market re-priced risk in the aftermath of the Lehman Brothers' bankruptcy (Bongini et al., 2009) – where the share price collapse was lower for intermediaries anchored to the traditional banking model.

The paper is organized as follows. In Section 2 we present possible effects of the banking regulation on banking diversity with particular attention to those of Basel III on co-operative banks. Section 3 describes the data and the empirical strategy to test our hypothesis. Empirical results are also presented. Section 4 concludes.

## BANKING REGULATION AND EFFECTS ON BANKS DIVERSITY

The Great Crisis started in 2007 highlighted the virtues of co-operative banks. After many years of negative prejudices towards them – prejudices driven by the presumed benefits associated with financial liberalization and the virtues of the shareholder value model in banking – Authorities, the financial and academic communities have recognized the importance of co-operative banks. The Great Crisis underscored the major value of biodiversity in the banking system with respect to a situation where all banks adopt a single type of business model.

Although Basel III is designed to make the banking system more resilient, some shadows still gloom the horizon. It was stressed (de Larosière, 2011) that the Accord penalizes banks that during the crisis have proved more resilient: the diversified universal banking model based on the traditional model where OTH and co-operative banks are an important part, especially in Europe. Universal banks, including in particular co-operative banks,<sup>2</sup> were the least involved in the Great Crisis showing more resilience due to the fact that firstly, they rarely used securitization and, secondly, because they had strong balance sheets and a large deposit base, which reinforced their liquidity. An example of this is represented by the Italian Banche di Credito Cooperativo (BCC) that during the credit crunch continued to finance the economy and in particular small and medium-sized enterprises (SMEs): between 2007 and 2009, loans granted by BCC grew faster than at PLC banks (8.7 against 3.3%).<sup>3</sup>

The data confirm a recent advertisement of Italian co-operative banks stating: “My bank is different.” The co-operative banks are different with respect to the other banks, primarily banks established as PLC, for the purpose they pursue. Co-operative banks should not maximize shareholder value (SHV) – the primary objective for banks established as PLC, often pursued through the OTD model that best fits that purpose. By their nature they should pursue instead other objectives maximizing the benefits to their members and to the communities they serve. Co-operative banks are therefore the prototype of stakeholder value (STV) banks. The clear difference between SHV and STV banks emerges when one looks at the governance of

banks. For the first group of banks (SHV), the key element is the share – ‘one share one vote’ – while for the second group here represented by co-operative banks, the key element is the member – ‘one head one vote’. Although the principle of ‘one head one vote’ has disadvantages in terms of governance (less flexibility and timeliness in taking decisions), it has the obvious advantage of leading to decisions that represent the will of a larger group of bank stakeholders.

As a consequence of this system of governance, co-operative banks show a lower volatility in returns (Hesse and Čihák, 2007; Bongini and Ferri, 2008) granting them the possibility to pursue long-term goals through a business model that not only hinges on the OTH model but also features a deep rooting in relationship banking and limited exposure to financial market related activities.

Those deep roots in relationship banking are also a natural consequence of the structure of co-operative banks. Often, their regulation/statutes prescribe that the majority of loans should go (with better conditions with respect to other borrowers) to co-operative banks’ members with whom the coops entertain relationships that go well beyond the normal lending bond resulting in commercial and professional relationships (not to mention family or friendship ties). These relationships have a positive effect on facilitating lending and lowering both the costs of screening and monitoring among members and borrowers. In addition, the ‘stigma’ effect in the community reduces the likelihood of opportunistic behavior by the borrowers. It follows that the STV banking model is better placed to reduce borrowers’ information asymmetries, thus overcoming the market failures at the origin of banks and banking regulation.

The new requirements of Basel III – capital requirements but also other measures such as liquidity requirements – may penalize universal banks pushing them into fierce competition to attract new deposits (e.g., increasing interest rates paid on deposits) for compliance purposes thereby increasing the cost of lending. Loans will be probably cut to reach the capital requirements increased by the new regulation and banks will tend to keep in their balance sheet only the most profitable assets within the same risk assets’ class.

Practically not much has changed in the field of supervision by Authorities. The so-called ‘light touch’ approach was, according to most independent observers, one of the causes of the Great Crisis. Had controls been more effective, e.g. such as in countries like Canada or Italy, much of the disaster occurred could have been avoided. In addition, the setting of banking regulation and supervision

<sup>2</sup> With rare exceptions in countries such as France, Switzerland, Germany, the Netherlands and the UK.

<sup>3</sup> Our calculations on data from Banca d’Italia, 2011.

based on parameters, such as profitability, appropriate for SHV banks but less so for STV banks can somehow lead the latter to behave like the former, distorting their original nature. The concept behind the Basel Accords, that is the theory that numbers, ratios and more generally mathematics alone is needed to control and reduce risk, over the years, has led to a false sense of security with the only result to save the credibility and reputation of regulators (Pomerleano, 2010).

Increased coordination, not only as seen in the midst of the Great Crisis, between the supervisory authorities worldwide is essential to create a level playing field and prevent the banking and financial institutions from exploiting, with big advantages, gaps and differences between different regulations. Given the highly interconnected global financial system, a regional reform, is inadequate to solve the problem of systemic risk, the regulatory authorities of different regions need to improve coordination to prevent a future crisis banking and financial system wherever it has its roots.

The possibility of regulatory arbitrage penalizes once again co-operative banks, and banks generally focused on relationship lending, in favor of global banks that can somehow circumvent the banking regulation and enjoy a competitive advantage. This may lead to an outflow of capital from more regulated banking systems to countries with less stringent banking regulations or even worse towards the shadow banking system. Given the high interconnection of banking and financial systems around the world, regulatory arbitrage may increase global systemic risks irrespective of the new and larger capital requirements of Basel III.

The high concentration of the banking system and the problem of 'too-big-to-fail' banks, are two issues closely linked and only partially addressed by the new banking regulation. The 'ordered failure' of large institutions, introduced in the US banking regulation by the Dodd-Frank Act, is acceptable in theory, but will probably result in an increased concentration in the banking and financial system: most likely and as happened during the Great Crisis, large institutions still alive will acquire the assets of failed institutions, increasing consequently the overall systemic risk. On the other hand, banking institutions of small size and closely linked to their territory, with a relationship lending business model, will be allowed to fail while important institutions for the system, in periods of monetary restraint, will not be allowed to fail in a natural way reducing also the competition in the loan market. In the US from 2008 to 2010, 313 banks with average total assets less than \$10 billion for each bank

for a total of about \$200 billion have failed, about one tenth of the value of total assets of JPMorgan Chase in 2010. The failure of a co-operative bank in a small town in Northern Italy wouldn't certainly 'earn' the front page of the Financial Times as the case of a giant bank of Wall Street.

The regulatory boost to the growth in size of banking institutions operates not only in bad times, through the channel of ordered failures, but also when institutions are in good health. The increasing complexity and growing volume of regulations that banks must follow leads to increased regulatory compliance costs that are, at least in relative terms, larger for the small banks like the majority of co-operative banks. For example, if compliance to new regulation standards, which today can be represented by the move from Basel II to Basel III, involves the use of 1 additional unit of personnel, the impact on costs for a co-operative bank with 10 employees – a value not far from the reality of many of the Italian co-operative banks – is approximately equal to 10%. In the case of a large banking institution, say with 10,000 employees, the increase in compliance costs will be approximately equal to just 0.001%.

In other words, the increase of compliance costs, that are fixed costs for each bank, creates an artificial scale benefit of regulatory nature, thus pushing banks to seek larger size, for example through mergers and acquisitions (M&A) with other banks of small size. This unintended regulatory push is particularly felt by co-operative banks, given their typically small size.

Growth is not a negative factor per se, but it raises some issues for co-operative banks, e.g., governance problems especially related to the difficulties inherent in the operation and participation of the members in banks' meetings. Even a further distortion of the approach may emerge placing the strategy of the co-operative bank exclusively at the service of members rather than including the interests of other groups in the community the bank operates within as it should be for stakeholder banks. Revisions to regulation are needed so that the compliance costs do not lead to an artificial increase in the size of co-operative banks – possibly weakening their ethical roots – and to greater concentration of the banking system increasing systemic risk. Thus, it seems appropriate to advocate some type of 'proportionality' in the enforcement of regulation that, even though common, should be drastically simplified for the small banks in a way to avoid building artificial regulatory-induced economies of scale.

The size of the banking business in addition poses at least two additional problems for supervi-

sors: the 'scrutiny problem' and the 'skill problem'. The scrutiny problem is related to the volume of banking transactions and related documents that authorities should consider during their surveillance operations while the skill problem is connected with skills that the supervisory staff must have to analyze complex operations (and tools) that banks undertake on a daily basis.

Using the example above, let's assume that a co-operative bank with 10 employees needs only 1 examiner, a number not far from reality. If we apply the same proportion to the bank with 10,000 employees, 1,000 examiners would be needed, a number of course not observed in reality.<sup>4</sup> This difference is also reflected in the number of transactions and documents that authorities may consider in the surveillance. In the case of co-operative banks, you will have a very high percentage of documents being examined, while in the other case, you will see an examination of documents only on a sample basis. The test on a sample basis will inevitably lead to devote less attention to certain aspects of bank operations increasing the probability of not having a reliable view of the whole situation of the bank, increasing the systemic risk due to any irresponsible behavior by the institution not emerged during the onsite examination.

<sup>4</sup> Two fitting examples can be found from the experience of two banks. The first one refers to the asymmetric burden imposed on banks of different size by on-site examiners. As spelled out by Lange Ranzini (2011), the President and Chief Executive of University Bank in Ann Arbor (Missouri, USA): "...the chief executive of Goldman Sachs, in an interview after his investment bank became a 'bank holding company' during the market panic in late 2008, that [*because of*] the 'extra' regulatory scrutiny ... they now had 40 bank examiners who drop in from time to time and look over some documents ... Our bank, which has 200 employees, gets 20 bank examiners each year - that is one examiner for every 10 employees. Goldman Sachs has 34,100 employees, so if the same ratios applied, it would be visited by 3,410 bank examiners for a month, or it would have 284 examiners permanently stationed on site. Our examiners look at 50 per cent of all loan files - that means they read every piece of paper in every one of those files. Then they review all reports that can be output by our computer systems. Can the examiners even look at a 0.01 per cent sample of a mega bank's files?". The second example is drawn from the message to shareholders of M&T Baking Corporation, an institution that - though not certainly small with its some 15,000 employees - kept its focus on traditional banking activities. Its chairman, Robert Wilmers (2012) states that "The cost of compliance with the multiplicity of statutes, standards, and other government mandates under which a comparatively uncomplicated bank like M&T must operate has been tracked and discussed in these Messages for nearly a decade. The news, however, is not getting better. These costs have risen from roughly \$50 million in 2003 to \$95.1 million in 2011".

Much clearer, on the contrary, for supervisors will be the situation of the above mentioned co-operative bank. The scrutiny problem a competitive advantage gives to larger banks compared to banks of more modest size as a co-operative bank in such a way that it challenges the 'level the (regulatory) playing field' tenet. The problem obviously heightens with the introduction of new and more complex rules such as Basel III and by the type of supervision (the 'light touch' versus the 'rigorous touch').

In turn, the large size of banking institutions may push them to undertake more complex operations and to use complex financial instruments than small size banks, such as the co-ops, do. The complexity of operations and tools leads directly to the skill problem for surveillance authorities. During the Great Crisis, we heard many times of 'toxic assets', complex financial instruments that even those who had created those instruments - with financial science fiction operations - were not fully aware of the risks involved in them. The opacity that characterized (and distinguished) complex financial instruments such as CDOs and ABS, requires very high skills that supervisors in most cases do not have (sometimes supervisors resorted to pools of external experts to evaluate those financial instruments). Can an examiner understand the risks contained in hundreds and hundreds of pages describing these instruments before they have infected the whole system? The story of the subprime securitization pyramid said 'no'. In addition, the differences in the speed with which financial innovation and supervisors (and regulation) move, makes the task extremely difficult or even impossible.

Once again, OTH banks, relying on relationship banking and rooted in the territory such as co-operative banks, are penalized by the regulatory and surveillance framework. These institutions had little or nothing to do with securitization - the root of the OTD model - and instead they engaged in traditional operations and instruments such as lending to enterprises and households.

The approach that still shapes banking regulation is based on 'one-size-fits-all'. Terms like 'diversity', 'biodiversity', 'relationship banking' or 'co-operative banks'<sup>5</sup> are completely absent in the text of the Basel III Accord revealing that there is little regulatory attention to the different roles and characteristics that distinguish market participants in the banking system. Indeed, some studies (e.g. Ayadi et al., 2010) show that biodiversity is a value in the banking system to preserve the stability with co-operative banks contributing significantly and

<sup>5</sup> Only quoted in note number 12 of the Basel III Accord.

positively to the maintenance of this stability. Alas, regulators do not seem to pay enough attention to this.

## THE NEW BANK REGULATION: A SURVEY AMONG ITALIAN CO-OPERATIVE BANKS

During 2011, i.e. after the release of the final text of the Basel III Accord, we conducted a survey questionnaire among Italian co-operative banks (BCC) to learn their views on various aspects of the new banking regulation that will engage banks in the coming years.

At the end of our survey we collected answers from 141 BCC (i.e. about one third of the total number of BCC in Italy at end 2011). Among others,<sup>6</sup> we asked some information on internal staff devoted to regulatory compliance and possible impacts on several aspects of bank's governance of the new Basel Accord. Balance sheet and other structural data on Italian BCC come from the 2011 edition<sup>7</sup> of the 'Yearbook of co-operative banks' (an annual collection of data on Italian BCC) and directly by balance sheet documents when data are not available in the Yearbook.

We argued that co-operative banks are urged to these changes also by the channel of regulatory compliance costs. From an ad hoc survey on Italian co-operative banks we found that compliance costs – in terms of devoted employees – had increased on average of 175%, between 2000 and 2010 that is even before the enforcement of Basel III, with peaks of 500% for some co-operative banks. In addition, in 2010, an average of 1.9% of these banks' staff was committed to regulatory compliance, with peaks above 4% and is much larger for the smaller-sized co-operative banks (3.4%) than for the larger sized ones (1.0%).

The costs of staff devoted to regulatory compliance (as a proportion of the total staff) represent fixed costs for co-operative banks and after taking into account differences among co-operative banks in terms of volume of business, geographic location and local networks, the size – in terms of total employees – of co-operative banks plays a key role in

explaining the costs of staff devoted to regulatory compliance. 'Increasing' the total number of employees of co-operative banks significantly reduces their regulatory compliance staff costs. In other words, this means that co-operative banks with a smaller total staff bear a cost of regulatory compliance, in terms of devoted staff, relatively higher than at larger co-operative banks.

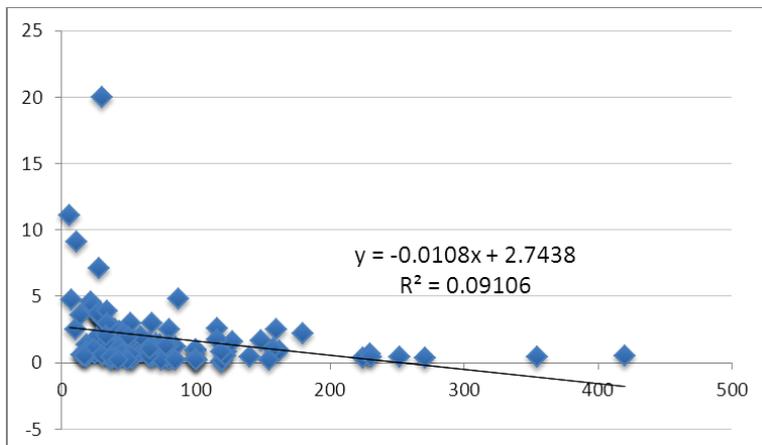
As a starting point, it is important to stress that from the data collected with the ad hoc survey, we found – apparently continuing previous trends (Eliehausen and Lowrey, 2000) – that the costs of regulatory compliance kept increasing significantly in the past decade. Namely, for the interviewed co-operative banks for which it was possible to observe the phenomenon in both 2000 and 2010, the number of staff-month devoted to regulatory compliance increased by 175%, while the average number of employees across all the Italian co-operative banks rose by 67% only over the same years. In other words, the staff devoted to regulatory compliance rose almost three times faster than the total (Italian) co-operative banks staff during the last decade underlying the raising pressure of regulatory compliance costs – in terms of devoted staff – on co-operative banks.

As a first step of our hypothesis, we test the existence and the relevance of scale effects in compliance regulation staff costs in co-operative banks. Strongly supportive evidence may be gleaned from Figure 1, a scatter diagram where we plot the number of employees of the co-operative banks at the end of 2010, on the x axis, and the share of employees devoted to regulatory compliance at the end of 2010, on the y axis. The slope of the interpolating line is significantly negative suggesting that compliance costs lower with size. Indeed, all the four observations with more than 5% of employees devoted to regulatory compliance refer to co-operative banks with less than 50 total employees.

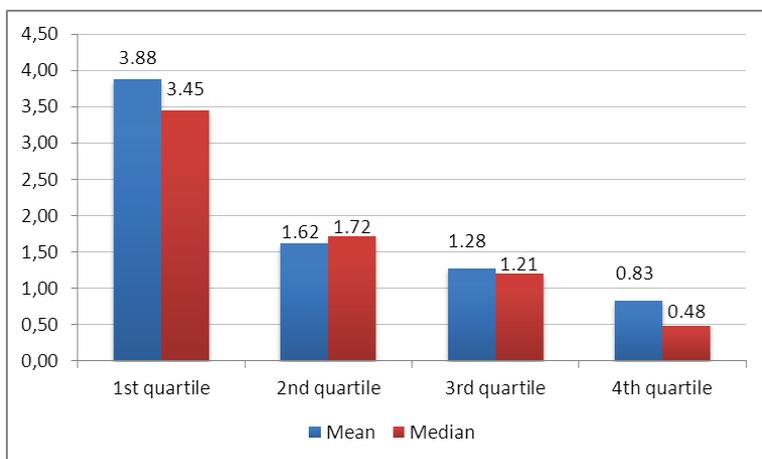
In addition, Figure 2 reports the average and median values of the share of employees devoted to regulatory compliance broken down by quartile of size (in terms of total number of employees of the co-operative banks). Both measures half moving from the first to the second quartile – when the median size almost doubles from 24 to 41 employees – and keep decreasing to reach a minimum for the fourth quartile, having a median of 127 employees. The median value of our proxy for regulatory compliance costs for the fourth quartile is just 1/7 of that for the first quartile: 0.48 vs. 3.45%.

<sup>6</sup> The questionnaire, available upon request, consisted of 12 multiple choice questions and 5 open questions inferring also information on the views of each bank regarding the potential impact of Basel III on several aspects, such as the mix of products/services, governance, profitability, and growth strategies.

<sup>7</sup> Data are updated to October 2011.



**Figure 1.** Share of employees devoted to regulatory compliance vs. total employees



**Figure 2.** Share of employees devoted to regulatory compliance by size classes

To further check that the nexus between our proxy of regulatory compliance costs and banks size was robust, in Ferri and Pesce (2012) we implemented an econometric model where the dependent variable is the ratio, for each BCC, between the internal staff devoted to regulatory compliance in 2010 and the total staff in the same year.<sup>8</sup> The estimation re-

sults confirmed our hypothesis that the share (to total staff) of staff devoted to regulatory compliance represents fixed costs for co-operative banks. Another important point is represented by the fact that the share of staff for regulatory compliance increases when co-operative banks, in their history, have been part in mergers and acquisitions (M&A) events, highlighting the presence of administrative costs arising from these operations, possibly due to the duplication of staff regulatory compliance costs and to some transitional adjustment costs.

<sup>8</sup> In particular, we estimated the following specification:

$$SRC_{i,2010} = \beta_0 + \beta_1 X_{i,t} + \beta_2 \log(DIP_{i,2010}) + \beta_3 \log(Q) + D_{net,i} + D_{pro,i} + \varepsilon_i \quad (1)$$

where  $SRC_{i,2010}$  is the ratio between the internal staff devoted to regulatory compliance and the total staff in 2010 for the co-operative bank  $i$ . We introduced a set of structural factors of co-operative banks,  $X_{i,t}$  and our main covariate of interest,  $DIP_{i,2010}$ , which represents the number of total staff in co-operative bank  $i$  in 2010. We tested also qualitative co-operative banks specific factors,  $Q$ , resulting from the survey. In order to control for geographic fixed effects that could impact on staff regulatory compliance costs, local co-operative banks associations fixed effects,  $D_{net,i}$  were

**Through the questionnaire, we asked co-operative**

introduced in the empirical specification. The specification included also Italian provinces fixed effects,  $D_{pro,i}$  to control for other geographic characteristics. This set of dummies hence absorbed any effects specific to the co-operative banks.

banks to indicate the current weight and the future expected weight, with Basel III, in their portfolio of a set of products and services offered to customers on a scale from 1 (no weight) to 5 (decisive weight). Based on the responses, we constructed an indicator of the relative weight of each product (or service) in the portfolio of each co-operative bank, calculated as the ratio between the weight assigned to a specific product (or service) and the sum of the weights assigned to all products and services. We used the indicator as covariate in our regression analysis. The only significant result was obtained for corporate finance pointing out that its management in terms of regulatory compliance (e.g. the assessment of risk) will probably cause a significant increase in staff costs devoted to regulatory compliance.

Starting from the previous results on corporate finance Ferri and Pesce (2012) addressed the issue, raised by many, of the possible negative repercussions of the new banking regulation framework on bank lending to the corporate sector. Using our data, it was possible to construct an indicator of the relative weight of corporate finance in the co-operative banks' portfolio. In other words, our indicator, *DWCF*, represents the difference between the current relative weight of corporate finance in co-operative banks' portfolio (defined as above) and its expected relative weight in the future with the introduction of Basel III (defined in the same way).

It is worth pointing out that if for a co-operative bank the value of *DWCF* is positive, one could not say that there is a sure decrease in loans to firms in absolute terms. We are, otherwise, in a situation with a different composition of the portfolio of the co-operative bank and therefore the relative weight of corporate finance in its portfolio of products and services. There would be a contraction in loans to firms in absolute terms (i.e. a credit crunch) if a positive value of *DWCF* is associated with a (future) growth of the total co-operative bank portfolio in absolute terms not sufficient to compensate the loss of importance of the loans to firms in the today co-operative bank portfolio. Reduction of loans to firms is sure in the case of a stable value of the co-operative bank portfolio and, even more, in case of a contraction of the value of the co-operative bank portfolio. To better analyze the determinants underlying the possible reduction of the relative weight of corporate finance, we classified co-operative banks into three groups based on the value assumed by *DWCF*: the first group contains the co-operative banks for which the variation with Basel III compared to today's weight of corporate finance in their portfolio is equal to zero; in the second group there are co-operative banks which are

expected to increase the relative weight of loans to firms (i.e. *DWCF* negative); while the third group contains co-operative banks with a positive value for *DWCF* or in other words where there is a reduction in the relative weight of loans to firms as a result of the implementation of Basel III. The analysis of the *DWCF* revealed that co-operative banks that, with the full introduction of Basel III, will probably increase the relative weight of corporate finance are mostly small in size with an average number of branches equal to 9 (and as previously mentioned with a staff costs for regulatory compliance higher than other co-operative banks), while the co-operative banks that will probably reduce the importance of corporate finance in their portfolio are, for most, medium and large ones with on average a number of 12 branches.

As final step of the empirical analysis Ferri and Pesce (2012) fitted a probit model to check whether staff regulatory compliance costs could be an artificial driver for future M&As among (Italian) co-operative banks as a consequence of the new banking regulatory framework.<sup>9</sup>

We should stress that it is plausible that co-operative banks with the same characteristics have a similar way to act. In this case, it is highly probable that co-operative banks of almost equal size could have a similar pattern with respect to the possibility of future M&A operations. Thus, we clustered observations to account for correlation across co-operative banks of similar dimension and independence across co-operative banks of different dimension. We used the number of co-operative banks' branches to cluster co-operative banks in the following four groups: 1) co-operative banks with a maximum number of five branches; 2) co-operative banks with more than five and fewer

<sup>9</sup> The model had the following specification:

$$M\&A_i = \beta_0 + \beta_1 Z_{i,t} + \beta_2 SCR_{i,2010} + D_{area,i} + \varepsilon_i \quad (2)$$

where *M&A<sub>i</sub>* is a dummy variable that accounts for future possible M&As among (Italian) co-operative banks. The variable comes from our questionnaire survey in which we asked Italian BCC "Will the requirements of Basel III increase the probability of mergers and integrations among co-operative banks? If yes, will your bank consider that option?". *M&A<sub>i</sub>* in particular takes value 0 if co-operative banks answered "No" to the second part of the question and value 1 if the answer was "Yes". Our main aim with (2) was to verify if the ratio between the internal staff devoted to regulatory compliance and the total staff in 2010 for the co-operative bank *i*, *SCR<sub>i,2010</sub>*, is predictive of expected future M&A operations among BCC. In other words, we tested if a possible increase in regulatory compliance staff costs drove by the new banking regulation could push BCC to grow in size through a sort of 'artificial' economies of scale. *Z<sub>i,t</sub>* is a matrix of co-operative banks structural variables and *D<sub>area,i</sub>* are fixed effects for co-operative banks geographical area.

than eleven branches; 3) co-operative banks with more than ten and fewer than twenty one branches; and 4) co-operative banks with more than twenty branches.

The probability that the BCC expect to be involved in future M&A operations increased as the number of M&A occurred in the past increases. In other words, the experience gained in these operations and perhaps, even more, the success of past M&A operations had a significant positive impact in considering future M&A operations to mitigate the effects of Basel III. The significant and positive coefficient of the share of staff devoted to regulatory compliance confirmed the fact that acquisitions and mergers find in the new banking regulation a driving force through the existence of artificial economies of scale as we discussed above. As expected, the likelihood of future M&A operations increased with the size of co-operative banks in terms of number of branches.

## CONCLUDING REMARKS

The Great Crisis highlighted the strengths of the OTH model along with the weaknesses of the OTD model. The banking institutions based on the latter model proved during the crisis to be weak while the banks based on the OTH model showed their strength and the huge contribution they provided to the stability of the whole banking system.

The crisis has triggered a new wave of regulation, primarily but not exclusively, in the banking system. Basel III is one cornerstone of the new banking regulation that in the coming years will commit the entire banking system. We have seen how it introduces measures to correct and prevent the causes that triggered the Great Crisis. However, some question marks remain on the stability of the banking system such as the problems arising from the unregulated shadow banking system, the possibility of regulatory arbitrage, the type of ('light touch' vs. 'rigorous touch') and the extent of surveillance ('scrutiny problem') and the skills of supervisory authorities ('skills problem'). Last but not least, the current regulatory approach ignores the benefits from the presence of banking and financial institutions with different objectives and governance. Co-operative banks, for example, until a few years ago were considered outdated and inefficient institutions but the Great Crisis uncovered to the public opinion, throughout Europe and beyond, the positive contribution co-operative banks give to the stability of the whole banking system. However, the regulation in its current framework does not recognize such a role. Instead, unwitting-

ly, it creates distortions that may push these banks into business and governance models outside their nature and characterizing mainly big banks, primarily PLC banks.

We argued that co-operative banks are urged to these changes also by the channel of regulatory compliance costs. From an ad hoc survey on Italian co-operative banks we found that compliance costs – in terms of devoted employees – had increased on average of 175%, between 2000 and 2010 that is even before the enforcement of Basel III, with peaks of 500% for some co-operative banks. In addition, in 2010, an average of 1.9% of these banks' staff was committed to regulatory compliance, with peaks above 4%. The costs of staff devoted to regulatory compliance (as a proportion of the total staff) represent fixed costs for co-operative banks and after taking into account differences among co-operative banks in terms of volume of business, geographic location and local networks, the size – in terms of total employees – of co-operative banks plays a key role in explaining the costs of staff devoted to regulatory compliance. 'Increasing' the total number of employees of co-operative banks significantly reduces their regulatory compliance staff costs. In other words, this means that co-operative banks with a smaller total staff bear a cost of regulatory compliance, in terms of devoted staff, relatively higher than at larger co-operative banks.

The new banking regulation is expected also to have some impact on the supply of loans to enterprises. Middle and big size co-operative banks are those that with Basel III will probably reduce (in respect to today situation) the weight in their portfolio of corporate finance given the higher costs to manage them respect to other products and services. On the contrary the corporate finance will still a core business for small co-operative banks that probably increase its portfolio weight in the future. Thus, Basel III by favoring the growth in size of co-operative banks will probably impair the supply of loans to enterprises.

All this urges co-operative banks to find solutions to reduce the costs of regulatory compliance. One way is through mergers and acquisitions (M&As) among co-operative banks; in fact, 85% of the responding co-operative banks said that Basel III increases the probability of M&As among co-operative banks with a 43% of these respondents saying their own bank will be affected directly by this event. We find also that the experience (and success) gained in past M&A operations has a significant and positive impact on the probability that the co-operative banks expects it will be involved in future M&A operations for which the share of staff devoted to regulatory compliance is a driving

force, through the existence of artificial economies of scale, pushing co-operative banks to such operations to mitigate the effects of Basel III.

We thus need to reassess bank regulation in a perspective that takes into due account the differences in the nature and governance of different types of bank institutions to make the whole banking system resilient and to prevent the recurrence of new crises in the future. Possibly, enlightened

legislators and regulators should engage into applying some proportionality criterion in the enforcement of the new rules. This is needed to preserve the biodiversity within the banking system, whose virtues were (re-)discovered with the Great Crisis of 2007-2009. Now banking biodiversity demands practical measures of safeguard rather than simply lip service.

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## CHAPTER 4

# SUSTAINABLE DEVELOPMENT AND CO-OPERATIVES



# CO-OPERATIVE SOLUTIONS IN THE AREA OF RENEWABLE ENERGY: EVIDENCE FROM AUSTRIA

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## INTRODUCTION

Rising concerns over ecological sustainability and security of supply put the energy system under increasing pressure. This situation has brought forward the development of energy co-operatives as well as other forms of local or community-based ownership of renewable energy technologies. Typical ways of energy provision usually bear highly centralized energy infrastructures, whereas locally and co-operatively owned models can constitute a different model of energy provision and distribution (e.g. Olesen/Maegaard/Kruse 2004).

In public-citizen-partnerships (PCP; Karner/Roessler/Weismeier-Sammer 2010), local politicians and citizens try to adequately provide a public service, thus promoting a culture of self-help rather than a culture of dependency (Mayo 1997; Pestoff 2009). Citizen participation seems to be a fruitful approach not only for the provision of public services, but for the implementation of renewable energy in local communities as well. With its specific governance structures and commitment to self-help (Spear 2004), the co-operative represents a suitable form for promoting citizen participation (Somerville 2007; Lang/Roessler 2009). Against this background, we pose the following research question: *How can organizations built on co-operative*

*principles contribute to the diffusion of renewable energy in Austria?*

For our study we chose a qualitative research approach (Stake 1995), particularly with regard to existing research gaps regarding co-operative governance structures (Cornforth 2004; Spear et al. 2009), in order to gain insights into the structures of local energy co-operatives. Our case study is situated in the Austrian region of Vorarlberg. The energy initiative under investigation, *v-energie*, was founded two years ago with the overall target to establish a platform for investors, activists, and customers in Vorarlberg. The analysis of our case study allows for deeper insights into several aspects of co-operative energy production on local or community level.

Our paper is structured as follows: First, we discuss the status quo in Austria and Germany regarding renewable energy provision with citizen participation. Secondly, we present the methodological approach and afterwards provide a detailed description of our case, the *v-energie*. The presentation of our case analysis builds the core section of our paper, and is followed by a conclusion and suggestions for further research in the field.

## PCP IN RENEWABLE ENERGY PROVISION: STATUS QUO IN AUSTRIA AND GERMANY

We focused on Austria and Germany as the renewable energy domain in the German-speaking part of Europe. This part has developed under different circumstances as other European regions like Scandinavia (Schreuer/Weismeier-Sammer 2010).

In Germany, energy co-operatives have already been established in the early twentieth century to ensure electricity provision in rural areas (Flieger/Klemisch 2008). Wind parks emerged in the 1980s with citizen participation. A certain tradition of local energy activism in Germany is based on the anti-nuclear movement (Toke/Breukers/Wolsink 2008). In Austria, – due to institutional restrictions that will be discussed in detail later on – the renewable or alternative energy domain developed more slowly and in different forms. In the mid 1980s, biomass district heating (BDH) emerged as a innovation and is viewed as an important outcome of both local initiatives and public policy (Madlener 2007).

Today, especially Germany exhibits specific innovations in the renewable energy system, such as “bio-energy villages” (*Bioenergiedoerfer*) and “citizen wind parks” (*Buergerwindparks*), which improved the political profile of renewable and sustainable energy production (Toke/Breukers/Wolsink 2008). In Germany, more than 140 energy co-operatives have been recently founded (Mueller/Rommel 2010). Compared to other European regions and Germany, in Austria rural biomass district heating systems currently are the main locally owned renewable energy installations, which are typically organized as co-operatives (Schreuer/Weismeier-Sammer 2010). Some exceptional cases are presented for example by Enzensberger, Fichtner and Rentz (2003) in the area of wind power. Nevertheless, such initiatives are typically organized in the legal form of a “GmbH & Co. KG”, which can be described as a hybrid of a limited liability company and a partnership, or totally private investor-owned (in form of portfolio companies, where citizens can buy shares from).

In a recent explorative study, Mueller and Rommel (2010) identified several factors as being important for co-operatives compared to other organizational forms. Above all, the revised German co-operative law, product differentiation (green electricity, where does electricity come from?), rising interaction between consumers and producers, as well as increasing civil society activities turned out to be most important for the strong growth of

electricity co-operatives in Germany. Additionally, framework conditions in Germany are favorable for renewable energy projects especially regarding the following aspects (Schreuer/Weismeier-Sammer 2010)<sup>1</sup>:

- Feed-in tariff system
- Tradition of local energy activism
- General tradition of acting in political groups and associations
- Availability of loan capital at preferential conditions
- Sufficient number of investors

Unfortunately, the situation in Austria is much less favorable, as our case study will show. Regarding co-operative renewable energy projects, no best practice-example could be found in the literature (Schreuer/Weismeier-Sammer 2010).

Nonetheless, the co-production of public services through public-private-partnerships (PCP) has recently increased in Austria and Germany (cf. Flieger 2003 for German examples), although in different areas such as childcare, education, and recreational facilities. In general, the term PCP defines organizational forms of co-operation between municipalities and their citizens for the co-production of public services (Karner/Roessler/Weismeier-Sammer 2010). PCPs further seem to be a promising organizational form for the provision of renewable energy, as they are rather social capital-based organizations (Lang/Roessler/Weismeier-Sammer 2010), which is reflected by the social orientation of their governance principles such as mutual self-help, democratic control, voluntary and open membership or community orientation (Valentinov 2004; ICA 2006; Somerville 2007; Spear 2004).

## METHODOLOGICAL APPROACH

The aim of this paper is to gain deeper insight in the contribution of organizations built on co-operative principles to the diffusion of renewable energy in Austria. Particularly with regard to existing research gaps regarding co-operative governance structures (Cornforth 2004; Spear/Cornforth/Aiken 2009), we chose a qualitative approach in order to gain first in-depth insights (Stake 1995) into the structures of co-operative energy organizations with citizen participation.

<sup>1</sup> Furthermore, Mueller and Rommel (2010) give a detailed overview of the political, economical, social and technological factors impacting electricity generation and trading in Germany.

After a desk research to track suitable cases in Austria, we quickly got aware of a co-operative called *v-energie* in the Western Austrian province of Vorarlberg. We conducted four interviews with relevant actors in Vorarlberg. Basically, interviews were semi-structured with a mix of single and group interviews. Interviewee 1 is the chairman of *v-energie*, Interviewee 2 works at the *Vorarlberger Energieinstitut* (Energy Institute of Vorarlberg), Interviewee 3 is the owner of a consultancy and chairman of the *Talentegegossenschaft*, which is affiliated with *v-energie*, and the last interview was arranged as a group interview. Interviewees were the director of the *Arbeitsgemeinschaft Erneuerbare Energie Vorarlberg* and one member of the *Talentegegossenschaft*. Furthermore, we were able to access some archival data (mainly press articles and internal reports). Data was collected in May 2010, when also an on-site visit at the central office of *v-energie* took place. All interviews were tape-recorded and transcribed afterwards, in order to have a solid database available for the following qualitative content analysis in line with Mayring (2008).

## CASE DESCRIPTION: V-ENERGIE

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### CONTEXT: RENEWABLE ENERGY PRODUCTION IN VORARLBERG

Within this section, we present the situation in the Austrian province of Vorarlberg where our case study is located in. Afterwards, we present the different actors directly or indirectly connected with *v-energie*.

Vorarlberg is one of nine provinces in Austria. It is located in the West of the country, bordering Switzerland and Germany. It covers an area of 2,061 km<sup>2</sup> and has about 370,000 inhabitants. In terms of size and population, Vorarlberg ranks 8<sup>th</sup> out of nine Austrian provinces. Energy consumption in Vorarlberg amounts to approx. 9,400 GWh per year. Currently, almost 30 % of energy consumed stems from renewable energy sources, such as wood, water or solar energy; an amount which bears the potential to be increased by 35 % (Land Vorarlberg 2011). In general, Vorarlberg focuses more on energy conservation than on the expansion of renewable energy systems, as the reduction of the energy-demand is considered to exhibit a greater impact on the environment. Energy efficiency is aimed to be achieved through improving the thermal insulation of existing private buildings

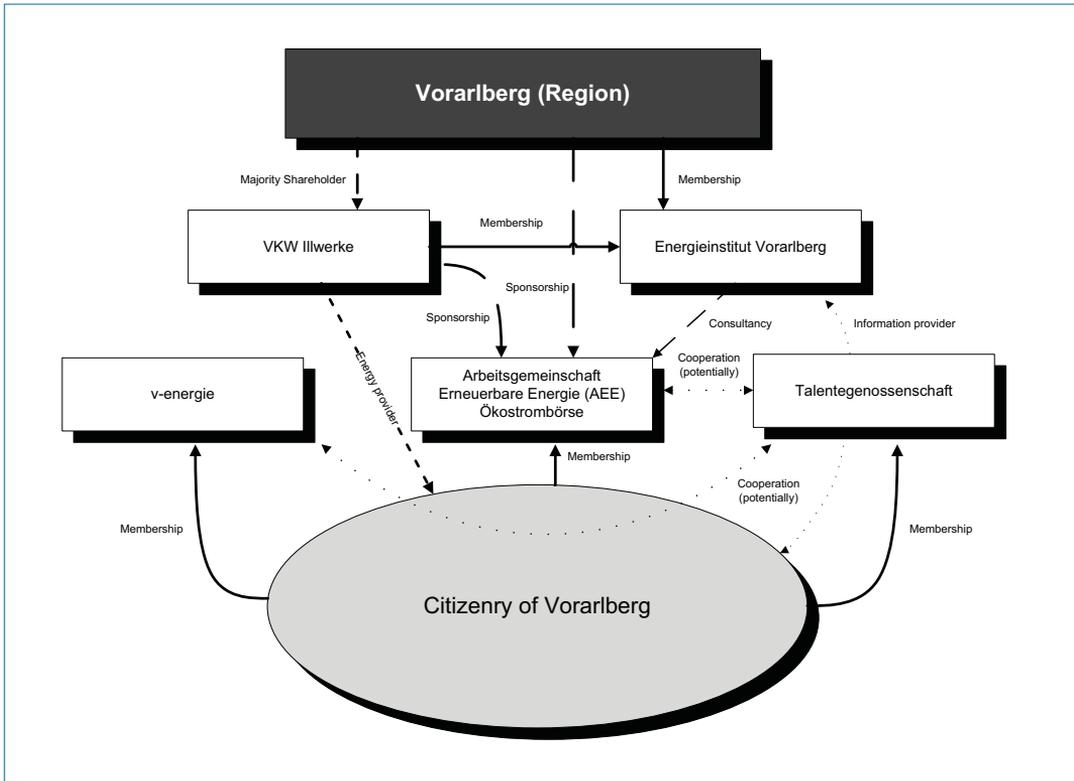
or by funding new buildings with energy-efficient insulation (Land Vorarlberg 2010). Furthermore, the city of Bregenz (the capital of Vorarlberg) for example is heavily engaged in supporting a greater diffusion of renewable energy. Since 2008, Bregenz is member of the *e5-network* of energy-efficient communities, a project assisting municipalities in modernization and enhancement of their energy politics (e5-Gemeinden 2011).

In 2010, the city council decided to promote the use of renewable energies. In doing so, small-scale biomass installations in residential buildings, district heating network lines, solar thermal systems in residential buildings, photovoltaic and other “green” installations are encouraged and actively supported. For the next 20 years, the city of Bregenz pursues a distinct energy strategy promoting and supporting renewable energy (Bregenz 2011). However, the explicit target of Vorarlberg is energy autonomy, achieved through both approaches: the development of renewable energy systems as well as through improvement of energy efficiency (Land Vorarlberg 2011). A big share of power production in Vorarlberg is delivered by large hydro-power plants (90 %). In 2009, the following green-electricity plants were in use in Vorarlberg: 912 photovoltaic plants, 12 small hydroelectric power plants, 31 biogas plants, 8 (solid and liquid) biomass plants, and 7 sewage and landfill gas plants (Energiebericht 2010). The largest feed-in capacity is delivered by biomass plants (44.3 GWh), whereas the big group of photovoltaic plants feeds in only 7.4 GWh.

### V-ENERGIE AND RELATED ACTORS

Figure 1 gives a brief overview of relevant actors and their relations with *v-energie*. As it will be shown, all actors aim at involving citizens in some way. The *Energieinstitut* plays the role of an intermediary between politics and the citizens. One of the most important actors is the *AEEV* (Arbeitsgemeinschaft Erneuerbare Energie Vorarlberg). The *AEEV* is also the operator of the *Oekostromboerse*, which is providing a platform for gathering donations to support renewable energy facilities.

Many people support green energy by using the *Oekostromboerse* or get their own small-scale energy generation facilities supported. Remarkably, the *Oekostromboerse* is also sponsored by the *VKW Illwerke* and the regional government. Nevertheless, the *Oekostromboerse* wants to actively change the energy policy of the region, which is quite surprising given such involvement of the main energy actors. At the moment, it is not clear



**Figure 1:** The relevant actors in the field

if the “grassroots organizations” – which all have the same target group – will cooperate and if so, in what way. In order to untangle the network presented in figure 1, we present the relevant actors in more detail:

- The *VKW Illwerke* is the largest energy service company in Vorarlberg. In 2001, it took over the *Vorarlberger Kraftwerke AG* (VKW, approx. 170,000 customers) and now acts as the main provider not only in Vorarlberg, but also in parts of Southern Germany. The principal owner of *VKW Illwerke* is the province of Vorarlberg, holding 95.5% of all shares.
- In 2001, the *Illwerke Alternative Energie* (Illwerke Alternative Energy) was founded as a 100% subsidiary of *VKW Illwerke*. The company’s strategic objectives are “the long-term use of indigenous energy sources in the province of Vorarlberg, the exploitation of the water as food and the regional implementation of measures of energy efficiency.” (Vorarlberger Illwerke AG 2011).
- The *Energie Institut Vorarlberg* (Vorarlberg Energy Institute, EIV) was founded in 1985 and is registered as an association with a declared non-profit character. Currently, the *EIV* has 40 employees. The total budget in 2008 was 3.4m Euros. The declared objective of *EIV* is: “We advise, educate and conduct research for sensible energy use and renewable energy sources.” Several institutions from Vorarlberg are members of the *EIV*, such as the province of Vorarlberg, the VKW and the chamber of commerce. In general, anyone may become a member of the institute, but particularly institutional members are aimed for. The work of the *EIV* is financed by membership fees, fees for services, project funding, fees for programs of participants / members, other incomes and sponsor contributions.
- The *ARGE Erneuerbare Energie Vorarlberg* (Consortium Renewable Energy, AEEV) was founded in 1999 to act as a regional advocacy for all producers of renewable energy. In other

provinces of Austria, there are also spin-offs of the national parent institution *ARGE Erneuerbare Energie*, AEE, which was founded in 1980 to promote solar energy. The AEEV is organized as a charitable organization, funded by membership fees, services and sponsorship (primarily from the province of Vorarlberg and the *VKW Illwerke*). Supporters of the association are also the *European Agricultural Fund* and *leader austria* (a funding scheme for regional development by the European Union in collaboration with Austrian counterparts).

- The AEEV is politically independent and thus tries to cover a wide range of interests. The areas of engagement of AEEV are diverse: public relations, networking, education and the implementation of the projects. It also acts as an operator of the *Oekostromboerse Vorarlberg*.
- The *Oekostromboerse* (an exchange for green electricity) is an essential pillar of the AEEV. Currently, there are three such energy market institutions in Austria: Besides the *Oekostromboerse Vorarlberg* and in Salzburg there is the nation-wide *Oekostromboerse Austria*. The *Oekostromboerse Vorarlberg* is the oldest and most established one. The main idea behind the set-up of such an exchange is to enable the financing of green power plants and to provide transparency in funding issues. This is achieved through voluntary surplus payments that customers make with respect to their electricity bills. This money is used for supporting small-scale producers of green electricity. It is important that customers can decide which system they want to support with their additional payment. The *Oekostromboerse* serves as the respective marketplace where such payments are settled and cleared. (ARGE Erneuerbare Energie Vorarlberg 2011).
- The *v-energie* was founded in 2008 as an association by two politicians of the Green Party. It has been designed as a project to promote the use of renewable energy. For a short time, it was considered to set up an own co-operative. The establishment of such a co-operative failed though because of the excessive costs that would originate from an appropriate set up process, particularly at the legal level. Thus, from the start an association proved easier to handle. Another reason that worked against the set up of a co-operative was the fact

that at the same time in Vorarlberg there was a so called *Talentegeossenschaft* (talent co-operative) that was appealing to a similar group of (potential) members. It was considered unfavourable if there were two similar co-operatives. Nevertheless, it was considered to merge in order to “join forces”. Meanwhile, co-operation between the *Talentegeossenschaft* and the *v-energie* exists. The association *v-energie* is now responsible for developing project-ideas which are then wind up by the co-operative. The main field of activity is the support of pv-systems and small hydro power stations.

## CASE ANALYSIS

Our case study aims at answering the research question: How can organizations built on co-operative principles contribute to the diffusion of renewable energy in Austria? Therefore, we analyzed the data gathered from qualitative interviews with members of *v-energie* by applying a qualitative content analysis (Mayring 2008) along the following categories:

- General framework conditions (5.1)
  - Situation in Austria (5.1.1)
  - Changes needed (5.1.2)
- Resources (5.2)
- Actor roles (5.3)
  - Promoters (5.3.1)
  - Investors (5.3.2)
  - Co-operative members (5.3.3)
- Organization of renewable energy projects and initiatives (5.4)
  - Objectives (5.4.1)
  - Supporting factors for renewable energy projects (5.4.2)
  - Problematic areas in renewable energy projects (5.4.3)
- Co-operative (5.5)
  - Problematic areas concerning co-operatives (5.5.1)
  - Comparison of the co-operative with other legal forms (5.5.2)

The analysis of our case study allows for deeper insights into several aspects of co-operative energy production on local or community level. Therefore, we focus on determinants of the developing process of *v-energie*, by describing the relevant *framework conditions* for the establishment of the *v-energie* project. After that, we elaborate the *re-*

sources relevant for this development and identify different *roles of actors involved* in this process. Furthermore, we concentrate on the *organizational forms* renewable energy projects might exhibit and elaborate on objectives as well as supporting factors and problematic areas in this field. Finally, we focus on the legal form *co-operative* in order to elaborate distinct requirements occurring for energy projects from choosing this legal form.

## GENERAL FRAMEWORK CONDITIONS FOR RENEWABLE ENERGY PROJECTS

### SITUATION IN AUSTRIA

In general, renewable energy in Austria comprises a great investment volume (BR28<sup>2</sup>). Nonetheless, projects in this area are facing a rather hostile environment, with many decision makers criticizing the general conditions they are embedded in (in our case this is the energy market in Vorarlberg/Western Austria). This is mainly true for pv-panels. Contrary to this fact, Austria plays an important role in the field of solar energy and biomass.

However, by now there is no really free market for electricity available, as large energy providers try to defend their position in the market and possess great influence on it (BR2). Additionally, the federal state policy of Vorarlberg is affected by its business actors, which means that large companies also influence energy policy in Vorarlberg (BR21). Although the federal state government does not avert alternative energy projects, it does not support them intensely either. In general, the federal state government does not seem to support such projects until they are successful (BR45). Therefore, it is not surprising that projects in their initial phases (without having a solid basis) are facing problems getting funds from the government (BB61). Although there are initiatives possible like the *v-energie* or the *AEEV*.

Compared to other European countries (e.g. Germany, Italy or Switzerland), the conditions for green electricity projects are underdeveloped due to hold-ups in the development of renewable energy alternatives over the past decades (BB39). The basic conditions in Germany are interpreted as being completely different (JM18) due to attractive feed-in tariffs. For example, pv-plants have boomed over the last years (BR24) and therefore

initiated a whole new line of business (e.g. installation, maintenance). The underdeveloped situation in Austria already shows negative impacts on the national economy: German installation businesses provide better conditions for private pv-plants, which has already been recognized by Austrian consumers (BR25).

Regarding the legal conditions for green electricity in Austria (or more precisely in Vorarlberg) it can be stated that the Austrian *Oekostromgesetz* (green electricity law) constitutes a major obstructive factor for the diffusion of renewable energy plants and the development of a free energy market (BB4, BB38, BR3). Furthermore, legal conditions in Austria seem to block out private initiatives in renewable energy (BB37). Legal conditions constrain the diffusion of alternative energy projects and policy actors show a low level of interest in topics like renewable energy or energy efficiency (BB51). For Austrian supporters of renewable energy the motivation of political actors is incomprehensible, as other countries (like Germany) provide evidence that capital spending in renewable energy can be profitable in the long run (BB74). Therefore, activists blame political parties for being “short-sighted” regarding renewable energy projects (BB74). One interview partner, working for *AEEV*, describes the problem as follows:

*„The problem is not the feasibility [of renewable energy diffusion in Vorarlberg], as this has been proved several times. It is the allocation of power. [In such cases] it's about new power structures, new power dispersion and new dependencies” (BR29).*

Although amendments and alignments of the Austrian law to the German example are planned, their implementation is not intensely supported so far as there are in fact no influential lobbies for renewable energy (BB41). Large energy suppliers in Vorarlberg possess a kind of monopoly in the state and are closely intertwined with the federal state government, which affects the development of a market for renewable energy negatively (BR21). The large energy suppliers have a long tradition in Vorarlberg and are interested in assuring their strong position, as the energy market in Vorarlberg is built around them. Therefore, they block out approaches for decentralized supply and show no interest in a change of the market situation they are embedded in. Decentralization seems to be only favorable for these large suppliers if it is arranged by means of their own supply channels (BB72). At the same time, private energy suppliers are dependent on them, as

<sup>2</sup> Initials and numbers in brackets after statements refer to interpretations of the single interviews.

they do not possess direct market access for their green electricity (BR7). The chairman of *v-energie* describes this as “building a glass-ceiling” by the federal state government and large energy suppliers (BB73):

*“This dispute is located behind the scenes. On the one hand [large energy suppliers] allow for decentralization to some degree, in order to prevent a ‘bad mood’ of people actively engaged in energy initiatives. On the other hand, they try to delimitate it, so that the admission [of alternative projects] does not endanger their position.”*

Therefore, the relationship between private energy initiatives and traditional energy suppliers is problematic (BB34), as the latter view private suppliers as an immediate threat (BB35). Besides institutional constraints for private renewable energy projects, several other obstructive factors could be determined:

- Citizens notice little emotional pressure to assume responsibility for the diffusion of renewable energy. Energy is perceived as cheap and of unlimited availability, so the great proportion of the population does not recognize any need for a change in the energy system (BS2).
- Investment in pv-panels in Austria seems to bear no economic benefit (JM5), which is probably due to the limited public subsidies.
- Austrian politics focus more on energy efficiency than on renewable energy (BS7).
- In economically difficult times it is difficult for alternative energy suppliers to find sponsors for their projects (BR50).

## CHANGES NEEDED

The general conditions for renewable energy in Austria described above imply a number of proposals for change. Nevertheless, it currently seems as if the legal conditions for renewable energy projects will not change significantly within the next years. Therefore, such projects require promotion on a federal state- or community-level in order to enable their implementation (BB60). There have been many changes of the *OekoStromgesetz* in the past, but they were not appropriate to support green electricity. Furthermore, a broad change in perception of the population as well as a certain linking-up of activists will be needed (BB70) to build a “strong backbone” for renewable energy diffusion in Austria.

Another approach for sustainable energy usage is to first and foremost increase energy efficiency, as the responsible usage of energy shows immediate

outcomes (JM21) and is able to provide a solid basis for further discussion of the implementation of renewable energy throughout the country. It will be important to start a broad public discussion and of course controversy about renewable energy (BB71) in order to change conditions for such projects. At the same time, the installation of best practice plants may as well encourage political actors to join the discussion about renewable energy. Furthermore, positive examples for renewable energy tend to bring forward follow-up projects in this area (JM21).

Small private suppliers need to actively contribute to a change in conditions for renewable energy, instead of passively wait for this change to come (BB31). Additionally, a change in the general conditions is dependent on the support of large energy suppliers on the federal state level. Support is especially needed in the formation of a decentralized energy supply-system which includes small private suppliers as well (BR59). Nonetheless, a change in the general conditions for renewable energy needs to be initiated by politics in the first place. Instead of staying dependent on conventional energy, resources of regional renewable energy have to be made useable (BR22).

## RESOURCES

The analysis of the interviews conducted in the case of *v-energie* yielded to a number of resources required for the implementation of renewable energy (with citizen involvement) in Austria.

First of all, social resources play an important role for projects initiated by citizens as alternatives to conventional energy supply. Social capital, which in the case of *v-energie* is defined as the intensive interconnectedness of activists and people interested in the topic, serves as a crucial prerequisite in order to ensure guidance for comparison of perspectives and for the evaluation of options for implementation (BB49). Furthermore, networks of promoters and other activists are needed to attract investors in alternative projects (BB59). Nevertheless, it is difficult to include institutions dependent on the (federal state) government in such networks, as governmental and non-governmental groups regularly have different views on what changes in the general (legal) conditions for renewable energy are needed (BB70).

Regarding technological resources necessary for the diffusion of renewable energy, it can be noted that in general the technical implementation of

renewable energy plants or tools for single households is not problematic (BR51), as the appropriate technologies are available. Especially photovoltaic systems can be implemented easily (BB52, BB66). Nonetheless, it is important to involve architects in the issue of renewable energy, in order to ensure that photovoltaic systems are included in the concept for new buildings from the beginning (BR5). In Vorarlberg there is a large market for single family houses with high design standards, but aspects of green electricity such as the integration of photovoltaic panels have often been ignored by architects so far (BR5). There is also a big market for passive houses.

Besides the installation of photovoltaic panels in individual housing, small-scale hydro power might serve as an interesting and reasonable alternative in Vorarlberg (BB65). Nonetheless, small-scale hydro power does not seem to be suitable for projects like *v-energie*, as it requires high financial investment, which cannot be guaranteed by initiatives in their start-up phase (BB67).

Furthermore, it has to be said that Vorarlberg would also have the potential for wind energy projects (cf. Dobesch et al. 2003). The interviews and the case study still focus on pv-panels, since these are the most important renewable energy sources used in the small-scale segment yet.

Projects in renewable energy require high financial investment in the beginning and are expected to amortize after approx. 15-25 years or later (photovoltaic systems) (BB29, BR52). Therefore, projects need a long-term financial background and require investors who are willing to provide capital for the long run (BR46).

## ACTOR ROLES

In general, the analysis of the case of *v-energie* resulted in the differentiation of three different types of actors fulfilling different roles in the formation process of renewable energy projects:

- (1) *Promoters* are people who initiate projects in renewable energy and are highly involved in the (pre) start-up phases of energy co-operatives. They promote the idea of renewable energy and support projects by using their personal networks to attract members and investors.
- (2) *Investors*: Their main task is to provide a solid financial background for new projects. Investors in renewable energy are predominantly driven by the idea of renewable energy, and not solely motivated by possible profits.

- (3) *Co-operative members* join the energy co-operative and are personally interested in consuming renewable energy.

Promoters, investors and co-operative members in renewable energy projects can frequently not be separated accurately. Hence, promoters can act as investors and co-operative members at the same time or vice versa. In this case study, we decided to separate the different actors from each other analytically, which enables us to present the characteristics of each type more precisely. They share three basic characteristics:

- First of all, the three types of actors involved have a high level of dissatisfaction with the current situation on the Austrian energy market (BB2).
- Secondly, they all seem to feel an urgent "need for achievement" and are ready to get their projects started (BB8).
- Thirdly, it seems that a politically predominant "green" attitude can be found in all of the three types (BB2).

Additionally, each type of actor exhibits distinct characteristics which are described in the following sub-sections.

## PROMOTERS

Promoters of renewable energy projects possess certain alertness for urgent problems in their surroundings and have a "feeling" for attracting the right people for their projects (BB5). New projects are dependent on the active commitment of promoters, especially in their (pre)start-up phases (BB20). If the commitment of promoting people gets lost, the whole (new) project is at risk (BB20). Promoters of projects may not be single persons but occur in teams (BB9), who need to have a high degree of interconnectedness in order to build up and make use of social capital (BB49). This social capital, e.g. in the form of personal contacts of promoters, can be used to acquire investors for new projects (BB59) in order to assure a solid financial background. Furthermore, members (activists or potential co-operative members) can be found via the promoter's network (BB53). Therefore, promoters need to extensively make use of their personal contacts to attract enough activists and members for new projects.

The involvement of political parties (or members of political parties as promoters) might be a special challenge for projects in renewable energy, as even projects (or promoters) initialized by political parties need to prove their reliability to people interested in the topic and of course in the project (BR46).

## INVESTORS

Attracting investors (and activists) for new projects is a main task of promoters (see above), although this seems to be one of the most difficult endeavors, particularly at the beginning of new projects (BR52).

Investors share a common attitude towards renewable energy projects: They are convinced that green electricity (*Oekostrom*) “makes sense” and that quick, decentralized and independent energy supply is important (BB45). Investors know about the problems regarding the general (legal) conditions concerning renewable energy; they know that their investment will not lead to high earnings (BB30). To summarize, the idea of producing renewable („green“) electricity is a general attitude in their life (BB45). To put it in the words of the chairman of *v-energie*:

*“Investors say: ‘It [renewable energy] is so important for me, it is worth to me.’ Therefore, they have a certain readiness – well, that’s the main thing for them” (BB45).*

Therefore, investors show great idealism when it comes to renewable energy, high earnings and profit is no important reason for their commitment (JM4), as projects amortize after 15-25 years at the earliest (BB29, BR 52). Nonetheless, some investors hope that energy tariffs will rise significantly over the next years and therefore invest in renewable energy (BB31).

Comparing investors to “ordinary” members of energy co-operatives or activists in renewable energy projects, it has to be noted that investors might also be persons who do not directly benefit from the energy produced (as consumers) (JM3). As mentioned above, they simply want to financially support such projects because of a “shared vision” for the future.

Renewable energy projects require a great number of investors in order to ensure an appropriate financial background for the construction of renewable energy plants (BR46). Therefore, projects in their start-up phase need to be built on a solid basement (promoters, supporters); the involvement of political parties might be helpful to attract investors (BB59).

## CO-OPERATIVE MEMBERS

First of all, co-operative members are interested heavily in renewable energy and energy efficiency (BB2). It seems that activists (like investors) are first and foremost attracted by the idea of renew-

able energy and do not have concrete expectations beforehand (BB16, JM4). Of course they act as investors by paying a certain membership fee. Co-operative members can choose between two alternatives of earning a profit from the project: (1) their membership enables them to directly obtain electricity (e.g. from their own photovoltaic system installed – extra electricity not consumed can then be compensated by feed-in to the main electricity network or (2) enhancement in value of their co-operative share (BB32), which puts them into the role of investors (see above, JM3).

## ORGANIZATION OF RENEWABLE ENERGY PROJECTS AND INITIATIVES

In order to organize renewable energy initiatives with citizen participation, first of all an organizational framework for coordination and planning is needed (BB13). In this respect, it might be helpful to found a platform, giving investors and other interested people space for information exchange and project planning (BB7), as otherwise the forming of a tight network structure cannot be ensured. Furthermore, it seems to be fruitful in terms of cost efficiency to combine related projects (BB19); special care has to be taken that this step takes place only when the platform is already established and “built on solid ground” (BB21). In doing this, special care must be taken to ensure balance between weaker and stronger projects and initiatives (BB20). Platforms organizing renewable energy projects furthermore need to ensure that all institutions involved share the same goals and do not perform as “solitary actors” (JM22). Nevertheless, they need to beware their own identity (BB28) and maintain a strict regulation between investors and plant owners (BR68).

## OBJECTIVES

Platforms for renewable energy projects can be viewed as networks, containing single projects and initiatives, which share one vision and combine their resources and contacts in order to achieve their goals. In the initiating phase of such platforms, this goal might be to realize a certain amount of plants and of course cost recovery (BB14). Further objectives might be:

- Establishment of flagship projects to show a broad public what renewable energy is able to achieve (BB50).

- Kicking-off a political discussion about renewable energy (BB50), enabling citizens to participate the design of general conditions (BR16).
- Overcoming political shortfalls by initializing new models and instruments for renewable energy-production (BR3).
- Enabling successful private initiatives to gain a better basis for negotiation against big energy suppliers (BR16).
- Changing structures in a way that co-operation with private energy suppliers becomes a real alternative for energy customers (BR16), so that market structures change as well (BR 21).
- Achieving renewable energy facilities to become a “matter of course” for individual housing (BR6).

Summarizing, it can be noted that initiatives like *v-energie* do not primarily focus on nation-wide (or federal state-wide) diffusion of renewable energy, but target an advancement of general conditions and acceptance towards renewable energy projects by setting a positive example (BB68).

## SUPPORTING FACTORS FOR RENEWABLE ENERGY PROJECTS

First of all, co-operation between interested citizens and institutions seems to be a crucial prerequisite for achieving a common goal in renewable energy (BR48). Additionally, the interviewees considered it to be of utmost importance that citizens start to demonstrate their values concerning renewable energy in public, in order to enable a change of values and initiate the involved dynamics (BR58). Regarding renewable energy projects it is important to underline the common ground that connects interested citizens and officials (BR73): (1) the independence from other forms of energy (nuclear power or oil), and (2), ecological aspects in general. Especially the situation in Japan after the nuclear disaster and the resulting discussion on energy efficiency and nuclear power might present a promising starting point for renewable energy.

Another factor supporting renewable energy project is seen in the participation of women in related initiatives: A great proportion of voluntary services (especially regarding citizen participation) is dominated by men (BS3). Women might be able to contribute a different perspective on the topic (BS4). Therefore, it is recommended to aim for a women’s quota in renewable energy projects, as this seems to be a fruitful approach for the success of such projects (BS3). Furthermore, women are said to embrace the “co-operative thought” more than men and appreciate solidarity (BS5).

## PROBLEMATIC AREAS IN RENEWABLE ENERGY PROJECTS

In the first place, projects need to be autonomous, as dependence from official funds puts projects on a politically influenced level, which might affect processes negatively (BR57). Furthermore, initiatives have problems capturing a clear position towards renewable energy, as the initiatives are dependent on the “good will” and/or funds from communities or the federal state (BB70), as political institutions might stop funding without further notice, if they do not agree with the project’s goals or the initiative becomes too powerful (BB58). Additionally, political influence might result in disturbance through power games of the political parties (BB70). On the other hand, assistance from political parties or institutions might of course help to put the project on a higher level (BB70). In renewable energy projects, because of the close co-operation among different people and institutions involved, some social problems on a personal level might occur (BR49), especially regarding mutual trust and the formulation of common targets (BR70).

## CO-OPERATIVE

In general, common objectives do not necessarily need a strict contract, even though it may be helpful in many cases. For renewable energy projects it is important to build mutual trust early. Nonetheless, in case of conflicts it may of course be useful to use a contract to support the initiation of a larger project (BR71). The legal form of a co-operative might be such a kind of “contract” to ensure common achievement of objectives (BR40).

The co-operative bears huge potential for the organization and governance of renewable energy projects (BB10, BB17, JM12). Especially, it enables collective decision making (BR33) within a large number of members. One big advantage of the legal form co-operative is the easy handling of the access /emission (without extra costs) of their members. Hence, the co-operative offers valuable opportunities for public participation, which is a big issue in the field of energy co-operatives.

Anyhow, it is without doubt that the costs of the legal form are a critical point. Regarding the annual costs of a co-operative in Austria (approx. € 3,000), co-operatives in the area of renewable energy need a certain “critical size” in order to ensure cost efficiency and the building of a useful structure aligned to its objectives (BB53). If this critical size is reached though, the opportunities to generate involvement are relatively high compared

to other legal forms. Each member has to sign at least one co-operative share and participates thus in the value of the co-operative. The co-operative share enhances the members' commitment to the project.

In Austria, only little interest in the legal form of the co-operative exists (JM9). This is mainly the result of an antiquated image (BR33) and the relatively high costs of the legal form. Furthermore, there are particular advocacy groups behind the co-operative in Austria (the so called *Genossenschaftsverbände*), which also act as a one-stop shop in services for the foundation and development of already existing co-operatives. This makes this legal form rather unique compared with other options like various forms of companies or associations.

The auditing associations (*Revisionsverbände*) of course would have the opportunity to reduce these costs and thus to contribute in making this legal form more attractive even for smaller projects, e.g. in renewable energy (JM8, see below). Naturally, the many co-operatives in the field of biomass mainly in rural areas where co-operatives have a long tradition should keep in mind.

## PROBLEMATIC AREAS CONCERNING CO-OPERATIVES

In general, there are two main problematic areas regarding co-operatives as a legal form for renewable energy projects: (1) The costs of the legal form, and (2) the co-operative law and the auditing associations.

### a) *Costs of the legal form*

The Austrian co-operative law (*Genossenschaftsgesetz/GenG*) stipulates that each co-operative has to be member in an auditing association. In general, co-operatives have high fixed costs for annual auditing and membership fees in these auditing associations (BB11). These costs amounting to approx. € 3,000 per year are obstructive for smaller renewable energy projects (JM1) when choosing a legal form (JM11, B11). The obligatory membership in the auditing association acts as an advantage and disadvantage simultaneously: On the one hand, the legally intended audit guarantees reliability for the co-operative members and their business partners. On the other hand though, in comparison to other legal forms the fees sometimes may cause a problem, in particular for small co-operatives. Nevertheless, it has to be considered that each legal form causes cer-

tain fees. E.g. most of the registered associations or companies of limited liability also need cost-causing legal and tax advices or marketing consultancy, although they are not obliged to be a member in an association.

This in turn means that even if the co-operative principles provide an adequate governance structure for renewable energy projects, initiators or responsible persons might choose another legal form (e.g. an unincorporated association, cf. 8.2).

### b) *Co-operative law and auditing associations*

The co-operative law in Austria is viewed as being obstructive in the area of renewable energy projects (BB11) or in areas with citizen participation in general. Furthermore, auditing associations are said to impede the foundation of co-operatives in innovative areas, like in renewable energy (JM3) because of antiquated structures (JM7). The founding of a co-operative in Austria is time-consuming, although founders get support from auditing associations (JM6).

## COMPARISON OF THE CO-OPERATIVE WITH OTHER LEGAL FORMS

The co-operative as a legal form bears some advantages over other legal forms (JM15, JM16):

- Members can easily join the co-operation (entry and exit of members)
- External control through auditing associations
- Lower capital assets necessary in the founding process (compared to other legal forms like limited companies; in future, the so-called "small limited company" might become a "rival" for co-operatives in renewable energy (JM14))

On the other hand, it turned out according to our interviews that founding an unincorporated association is viewed as being superior to the co-operative (BB12). For instance, co-operatives are interpreted as being more "formal" or "official" than associations, and interested people are frightened off because they fear responsibility (BR35). Furthermore, unincorporated associations are rather typical for citizen initiatives in a broad range of areas (BR36). Nonetheless, co-operatives and unincorporated associations are sometimes viewed as having long and complicated ways of decision making due to member participation (BR38).

## DISCUSSION

The results of our case study show that there are several problematic areas that impede the dispersion of renewable energy plants and projects in Austria.

Although Austrian municipalities claim to increasingly seek the support of citizens in the delivery of public services (Moedlhammer 2009), it seems as if the production of renewable energy is heavily affected by “big players” in the electricity sector, trying to maintain their market share and influence. Members of alternative projects like *v-energie* therefore call for more support from the federal state. Furthermore, legal restrictions for green electricity seem to block out private initiatives and therefore constrain the diffusion of alternative energy. Results show that a number of changes in the general framework conditions of Austria are needed to support the installation of alternative electricity plants. Most prominent, a call for a change in the legal conditions (*Oekostromgesetz*) could be noted.

Concerning an appropriate resource basis for energy projects, our results show that social resources (e.g. in the form of social capital) play an important role for the participation of citizens. Furthermore, this holds true if energy projects are to be organized based on co-operative principles. In the case of *v-energie*, social capital serves as an important prerequisite for the linking-up of interested people, as it is of utmost importance for citizen-based organizations whether citizens who are initially involved can access complementary resources through their own personal networks (Lang/Roessler 2009). In doing so, initial members – promoters – use their networks to attract members and investors, helping to build a solid basis for future work.

Results of our case study demonstrate the importance of considering the personal component of PCPs in the renewable energy sector. Actors in renewable energy projects share common characteristics, no matter if they are promoters, investors, or “just” co-operative members. Together with a commonly shared high level of dissatisfaction with the current energy market, actors feel an urgent “need for achievement” and share a predominantly pro-green political attitude. The production and consumption of green energy collectively gives a certain additional “sense” in their lives, as Mueller and Rommel (2010) note: “Producing one’s own electricity seems to make a difference. The electricity produced by a co-operative feels different from electricity purchased from a private company” (p. 9). A change in consumer-producer relations can

be noted, and the co-operative might provide an adequate organizational framework for reducing information asymmetries, giving members and consumers the possibility to know *how* and *by whom* their electricity is produced (Mueller/ Rommel 2010).

To summarize, our study provides evidence that co-operatives provide an adequate legal form for the organization of renewable energy projects. The easy handling of entry or exit of members offers important opportunities for citizen participation. Still, there is little interest in the foundation of co-operatives in Austria due to an antiquated image and high costs of the legal form. Nevertheless, empirical studies (e.g. Karner/Roessler/Weismeier-Sammer 2010; Lang/Roessler/ Weismeier-Sammer 2010) provide evidence that citizen participation in the form of co-operatively organized public citizen partnerships (PCP) bears a huge potential in public service delivery. As our case study of *v-energie* shows, this seems to hold true for the provision of renewable energy as well.

## IMPLICATIONS FOR PRACTICE AND SUGGESTIONS FOR FURTHER RESEARCH

The organization of renewable energy projects with citizen participation is a relatively new field of co-operative research. Furthermore, in particular regarding the situation in Austria, there is little to no empirical evidence regarding co-operative energy projects. Therefore, our case study has an explorative character in order to elaborate generally how co-operative principles might contribute in diffusing renewable energy projects with citizen participation in Austria. Furthermore, results of the case study might be helpful for other countries or areas, where the initial situation in the area of renewable energy co-operatives is comparable to the one in Austria (especially regarding problematic general framework conditions).

Analysis of the gathered qualitative data show that five major subject areas seem to be highly relevant for the diffusion of renewable energy with citizen participation in Austria. These categories might provide important input for other regions or countries as well by raising the following questions:

- *General framework conditions:* How do legal and political circumstances impact the foundation of co-operatives in the renewable energy sector?

- *Resources*: How does social capital support the development of co-operatives in the renewable energy sector and to which extent might it be useful?
- *Actor roles*: What are the characteristics of actors involved in renewable energy co-operatives? How might they be attracted to join projects?
- *Objectives*: Which objectives might platforms or networks for renewable energy provision follow? Which objectives seem to be fruitful in order to push the diffusion of renewable energy projects?
- *Co-operative*: How can co-operative governance structures support the organization of projects for renewable energy production and consumption? Which problematic areas arise regarding the legal form of co-operatives?

As can be seen from the categories above, results of our case study bear implications for practice as well. For example, it seems to be fruitful to concentrate on the legal conditions in Austria to support renewable energy provision. Therefore, a revision of the Austrian co-operative law might encourage more activists to choose the co-operative as an appropriate legal form for their projects. Furthermore, auditing associations (*Revisionsverbaende*) might initialize campaigns assuring citizens that co-operatives are a modern and democratic way for organizing citizen participation.

Nonetheless, our case study has a strong explorative character. For further research, it might be fruitful to analyze other good practice examples, e.g. in in-depth multiple case studies to draw a more fine-grained picture of the role of co-operatives in renewable energy production.

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# GREEN JOBS: THE CONTRIBUTION OF SOCIAL ECONOMY ENTERPRISES IN AFRICA

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## ABBREVIATIONS

<b>ADAPT</b>	Appropriate Development, Architecture and Planning Technologies
<b>FTFA</b>	Food & Trees for Africa
<b>ILO</b>	International Labour Organization/Office
<b>IOE</b>	International Organisation of Employers
<b>ITUC</b>	International Trade Union Confederation
<b>LDCs</b>	Least Developed Countries
<b>OCFU</b>	Oromia Coffee Farmers Co-operative Union
<b>UGPPK-S/Z</b>	Union of Women Producers of Shea Products of Sissili and Ziro
<b>UNCTAD UN</b>	Conference on Trade and Development
<b>UNEP</b>	United Nations Environment Programme
<b>UN-OHRLS</b>	UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
<b>SEE</b>	Social Economy Enterprise

## INTRODUCTION

Social economy and social economy enterprises (SEEs) are not a new phenomenon in Africa and elsewhere in the developing world. Traditional groupings embodying the African spirit of “ubuntu” or “umojja” have existed across the continent of Africa throughout history. A more modern form of these groups are the mutual benefit societies, co-operatives, associations, and companies working for social aims instead of only for profit. These social economy enterprises have increasingly attracted the attention of governments and international donors as an alternative path to development in the continent.

In Africa, the social economy is already visible especially in the fields of microfinance, social protection, micro insurance, and collective work for example in the agricultural sector. For example it is estimated that roughly 7 percent of Africans belong to a co-operative. (Develtere & Pollet 2008, 45) Social economy enterprises are already providing practical solutions to various social problems on the ground, such as HIV/AIDS, linking informal economy with the formal economy, social inclusion of marginalized groups such as the disabled, access

to social services, and environmental degradation and climate change.

The effects of climate change will be felt especially hard in the so called developing world as weakened food-security, conflicts over land and water resources, desertification, loss of livelihoods, and increased migration flows, among other things. Climate change has gendered effects, and it affects strongly the most vulnerable groups of societies who often depend on natural resources for their livelihoods. At the same these most affected groups usually face the lack of access to resources and decision-making which could help them to mitigate these negative impacts. In this context, the developing countries and their most vulnerable populations are to benefit most from the transformation to a greener economy and the creation green jobs, and social economy enterprises offer a path towards this aim.

This paper aims to make the linkage between social economy enterprises and the green economy, and takes a look at case studies of SEEs that already are creating green jobs in Africa, one of the most vulnerable regions to climate change. The next chapters take a look at the UN definitions for green jobs, green economy, and social economy,

and then moves forward to defining and analyzing green entrepreneurs and enterprises, with special respect to social economy enterprises in the green sectors. Finally, practical examples African social economy enterprises working in the green economy will be given and analyzed.

## DEFINING GREEN JOBS, GREEN ECONOMY AND SOCIAL ECONOMY

### UN DEFINITIONS: GREEN JOBS AND GREEN ECONOMY

The ILO defines as green jobs as jobs that help reducing negative environmental impact ultimately leading to environmentally, economically and socially sustainable enterprises and economies. More precisely green jobs are jobs that:

- Reduce consumption of energy and raw materials
- Limit greenhouse gas emissions
- Minimize waste and pollution
- Protect and restore ecosystems

At the same time green jobs must be decent jobs in that they provide sufficient income, protection for the workers and their families, and promote rights at work. According to the ILO, green jobs can be created in all sectors, and both in rural and urban areas. The green jobs programme of the ILO focuses on analysis of the employment and labour market dimensions, practical approaches to greening enterprises, green jobs in waste management and recycling, renewable energy and energy efficiency, a just transition towards a green economy and a sustainable society, and adaptation to climate change. (ILO 2009b; UNEP et al 2008, 39-40)

The joint UN report *Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World* (2008) defines green jobs in a similar way, as:

...work in agricultural, manufacturing, research and development (R&D), administrative, and service activities that contribute substantially to preserving or restoring environmental quality. Specifically, but not exclusively, this includes jobs that help to protect ecosystems and biodiversity; reduce energy, materials, and water consumption through high efficiency strategies; de-carbonize the economy; and minimize or altogether avoid generation of all forms of waste and pollution. (UNEP et al 2008, 3)

Additionally, UNEP defines a green economy as “one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.” The characteristics of a green economy are low carbon, resource efficiency and social inclusion. (UNEP 2011, 16).

In their joint report from 2011 UNEP, the UN Conference on Trade and Development (UNCTAD), and the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) highlight the potential for green growth in the Least Developed Countries (LDCs). In general, the report notes that LDCs tend to have a low-carbon profile with fewer investments to polluting technologies and therefore already as a starting point need to “de-carbonize” less. Combined with the dependency on the rich natural resources and functioning ecosystems, these countries could in fact take the lead in transition to green economies. Key possibilities include ensuring access to (renewable) energy, waste management and recycling in urban areas, ecotourism, diversification of agricultural production into organic crops, and rural empowerment as a means to sustainable urban growth. (UNEP et al 2011, 9-13)

### SOCIAL ECONOMY AND GREEN JOBS: MAKING THE LINK

While there is no exhaustive definition for what constitutes social economy, the ILO uses the working definition agreed at the tripartite conference of Johannesburg in 2009. According to the definition, social economy comprehends:

Enterprises and organizations, in particular co-operatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity. (ILO 2009a, Preamble)

These organizations have sometimes been termed as social businesses, social firms, social economy enterprises, or social and solidarity economy enterprises and organizations.

The following graph (Table 1) captures a further elaboration of the social economy concept, visualizing the fact that social economy enterprises can have various legal forms such as co-operatives, associations or companies. At the same time, not all of these automatically belong to the social economy as in addition the organizations need to fulfill the criteria of:

1. Having a primary social goal
2. Provision of goods and services, operating as a business
3. Independence
4. Accountability to its stakeholders



**Table 1** Social Economy and its Enterprises

What, therefore, separates social enterprises from other forms of businesses is they have a primary social goal, towards which profits or surplus is being re-invested. At the same time, however, the enterprise should act in a business-like manner in contrast to not-for-profit charities and NGOs. An NGO could, however, be part of the social economy if it for example financed its social activities through selling of services or products. The characteristic of independence becomes especially important in the context of Africa, bearing in mind the history of the post-colonial co-operatives in service of existing government ruling parties in many countries of the region (Develtere 2008, 13-16). Finally, as social purpose enterprises, the SEEs usually bear accountability to their constituencies and beneficiaries, a fact many times affecting the whole organizational structure and management of the enterprise.<sup>1</sup>

Different terms have also been used to describe the entrepreneurs in the green economy, including “ecopreneurs”, “green entrepreneurs”, “green enterprises”, and “environmental enterprises”. Attempts have also been made to define the essential characteristics of green enterprises. For example

in his analysis of green entrepreneurs, Schaper lists the following very broad and general characteristics as central to “ecopreneurial activity”:

- Entrepreneurial nature. Ecopreneurs have to set up businesses the same as more conventional entrepreneurs.
- The business has positive effect on the environment and therefore towards a sustainable future.
- Intentionality in the sense that the environment and sustainability are seen as important and an end in themselves (Schaper 2010b, 13-14)

Robert Isaak on the other hand separates in his analysis “green businesses” from “green-green businesses”. According to him, green businesses are those which did not start as such, but after their establishment and due to various motivations, decided to green their enterprises. In contrast, green-green businesses are from the beginning designed to be green, and have the overall ambition of changing the sectors they operate in towards sustainable development. (Isaak 2002, 82)

Hendrickson and Tuttle for their part, for the purposes of studying organizational management, define an environmental enterprise broadly as a “for-profit organization that, at least in part, offers products and services for sale that benefit the environment”. Taylor and Walley also stress the profit-making nature of green businesses but recognize that the motives of the entrepreneurs “may not be solely green but be a combination of green, ethical and social motives, and it is often difficult to separate these”. Therefore, they include in their analysis the ethically and socially motivated entrepreneurs with financial objectives but also entrepreneurs that have transformed their businesses to be green. (Taylor & Walley 2002, 37)

The above mentioned definitions are useful for analyzing green social economy enterprises in the sense that they highlight the different ways of being “green” from process to the product, and the possibility of creating green enterprises or transforming into one. (Taylor & Walley 2002, 38) At the same time, they recognize the importance of environmental and social values to the green enterprises, and the intertwinedness of these goals. On a definitional level, therefore, social economy enterprises and green enterprises come very close to each other, to the extent that one could argue that at least the green enterprises, whose main goal is environmental, fall automatically into the category of a social enterprise.

<sup>1</sup> For a more in-depth analysis on ways to define social economy, please see Defourny & Develtere 1999.

Furthermore, the following categorization regarding the “greenness” of social enterprises could be made:

- 1) Social enterprises whose main social goal is environmental
- 2) Social enterprises for whom environmental goals are a secondary goal or a by-product of the main social goal e.g. utilization of green production techniques
- 3) Social enterprises who have little or no environmental awareness and do not have explicit environmental goals; ultimately these enterprises will need assistance to make the transition to green economy<sup>2</sup>

In this paper, examples of the first two categories of social enterprises are provided, as both of them contribute towards green jobs and green economy although with varying degrees. This leaves room to observe a broader spectrum of social enterprises, and provides a more realistic approach to the contribution of social enterprises to green jobs and green economy than focusing only on the first category of enterprises. As Schaper notes regarding the ideal type of an environmental enterprise: “since we live in an imperfect world, few business ventures are likely to be able to remain 100 per cent pure; there will almost always be some waste, pollutant or dirty”. (Schaper 2010, 14)

<sup>2</sup> In fact, most enterprises in the world are small in size and do not necessarily have access to information on climate change, and less financial means to cope with its effects. (ILO 2011a, 11)

## TOWARDS A FRAMEWORK FOR ANALYZING SOCIAL ECONOMY ENTERPRISES IN THE GREEN ECONOMY

Various approaches have been developed to analyze more closely the green entrepreneurs. While some researchers focus more on the outward characteristics of the enterprises, others focus on motivations, behavior, and influences of the green entrepreneurs. However, as Dr Ian Vickers notes in his analysis on literature on social enterprise and the environment, there has been a shift in the recent research on social enterprise to analyze the social entrepreneurship as a process and the communal, mutual aspect of entrepreneurship instead of focusing solely on the charismatic founders of the enterprises. (Vickers 2010, 20)

The approach of Hendrickson and Tuttle, developed in order to analyze further the dynamic management of an environmental enterprise, is especially useful in analyzing the outward characteristics and scope of a green business. Hendrickson and Tuttle suggest four main classification criteria to measure the environmental focus of a market strategy of an environmental enterprise (See Table 2) The first classification criteria involves the type of business, the second focuses on the extent of the environmental goal of the enterprise, the third criteria focuses on the type of customer, and the final fourth criteria focuses on the customer incentives. (Hendrickson & Tuttle 1997, 366-368)

**Table 2** Classification Criteria for the Environmental Focus an Enterprise (Henrickson & Tuttle 1997)

<p><b>1. Type of environmental business</b>                      e.g. products related to inputs and resources (such as alternative energy or recycled goods), products related to the transformation process, and products/ services related to output of goods</p>	<p><b>2. The extent of environmental emphasis of the overall product/service mix</b>                      e.g. the environmental goal is part of the mission statement, percentage of total businesses geared towards the environmental aim, the degree in which the product benefits the environment across the value chain</p>
<p><b>3. Type of Customer</b>                      e.g. consumer, institutional, commercial or industrial</p>	<p><b>4. Types of Incentives used to buy/sell the product/ service</b>                      e.g. free market (including feeling good about the environment), industry pressure for compliance (also expectations), government incentives</p>

Where the analysis of Hendrickson & Tuttle focuses on the externally visible criteria for an environmental enterprise, Taylor & Walley (2002) have provided us with an approach to green entrepreneurs that analyses their motivations and influences, considering both the external structural context and the personal orientation or motivation of the entrepreneurs, and the interaction between the two. Based on the variants of economic orientation versus sustainability orientation, and soft structural influences such as networks of family and friend versus hard structural influences of e.g. regulations and the market, Taylor & Walley have created four ideal types of green entrepreneurs. The "Innovative Opportunist" has recognized a green business opportunity and is financially orientated while the "Visionary Champion" is embracing sustainability, wants to change the world, and envisions hard structural change. The "Ethical Maverick" is primarily motivated by influences from family and friends, and establishes alternative-style businesses. The fourth type, the "Ad-hoc Enviropreneur", is an accidental green entrepreneur and is neither value nor financially driven. (Taylor & Walley 2002, 39-41)

While both of the former approaches to analyzing green enterprises provide useful angles to understanding social enterprises and their greenness, an additional aspect of studying the communality of social economy enterprises is needed. As many founders of social enterprises would argue, it is the mutual aspect and benefitting of the communities they come from and work with that is essential for their work. Therefore, in the following chapters we also analyze the social enterprises working in the green economy also from the perspectives of their ultimate beneficiaries. The results of the analysis are presented in the green profile matrices of each social economy enterprise.

## CASE STUDIES: SOCIAL ECONOMY ENTERPRISES CREATING GREEN JOBS IN AFRICA

### APPROPRIATE DEVELOPMENT, ARCHITECTURE AND PLANNING TECHNOLOGIES, EGYPT<sup>3</sup>

Appropriate Development, Architecture and Planning Technologies ADAPT was founded by Mr. Hany El Minawy in 1983 in Egypt. The aim of the organization is to facilitate low-cost and environmentally friendly housing for people in the infor-

mal settings in Egypt and wider MENA region. As an example, according to statistics, roughly 90 percent of Egyptians in this nation of 80 million people construct their homes themselves, without technical assistance or consideration for materials utilized, raising concerns for safety and environmental impact.

ADAPT's approach combines the using of modern technologies, local materials, and working with local communities and local builders. The work of the for-profit consultancy company is driven by the belief that construction should be adapted to local conditions and the environment. ADAPT reduces the costs for building with roughly 30 percent by using local construction materials such as stones and clay, and reconfiguring the materials and producing in-expensive and environmentally friendly construction material mixes such as durable bricks that can be then mass-produced.

ADAPT also makes use of local building knowledge and has built a network of roughly 600 master constructors in Egypt. These builders are identified together with community leaders, and the master builders are trained in ADAPT's approach to construction. As many of these master builders come from the informal sector, ADAPT has provided them with a gateway to the formal economy markets, and some of them have established their own contracting companies.

In addition, ADAPT addresses youth unemployment and troubled youth through on-the-job trainings which constitute of apprenticeships with the master builders associated with ADAPT. For example, during 2004, 1500 youths in the informal areas of Egypt were trained. ADAPT also liaises with universities, university students and teachers, and local NGOs.

ADAPT finances its activities through providing consultancy services to municipalities, governments and international donors. In Egypt, ADAPT has built over 10 000 housing units, including in the slum areas of Cairo. Over 70 percent of the projects of the company are related to the informal economy which the company sees as a source for innovation and new markets.

<sup>3</sup> Based on the case-study by Nader (2010).

**Table 3** Green Profile of ADAPT

<b>Name of Social Economy Enterprise</b>	<b>Appropriate Development, Architecture and Planning Technologies, Egypt</b>
<b>Year of Establishment</b>	1983
<b>Type of Organization</b>	Consultancy company (for profit)
<b>Level of Operation</b>	Egypt and MENA Region
<b>Type of environmental business</b>	Urban housing
<b>Type of environmental product</b>	Green housing technologies
<b>The extent of environmental aim</b>	Main
<b>Type of customer</b>	Governments, donors, municipalities
<b>Key Incentives for customers</b>	Free market
<b>Beneficiary</b>	Low income informal urban households
<b>Type of Green Entrepreneur</b>	Visionary Champion

**OROMIA COFFEE FARMERS CO-OPERATIVE UNION, ETHIOPIA<sup>4</sup>**

Said to have been discovered in Ethiopia, coffee plays a central role in the economy of the country until today. Coffee is by far the biggest exported cash crop in Ethiopia, accounting for over half of the export income. In addition, an estimated 15 million Ethiopian households depend on coffee for their livelihoods. While world-wide coffee is a big business, the coffee farmers themselves are usually the least to benefit, and continue to engage in subsistence farming.

The Oromia Coffee Farmers Co-operative Union (OCFU) was established in 1999 by 34 primary co-operatives from the coffee producing region of Oromia, as a response to the coffee crisis and the negative impact of reduced coffee prices to the Ethiopian coffee farmers. The objectives of the union are as follows:

- To improve the farmers income by selling coffee for higher price
- To improve and maintain the quality, productivity, and sustainability of coffee production
- To regulate and stabilize local market
- To assist coffee communities in providing social services such as schools, health centers, and clean water

OCFU has managed to penetrate the international market with its fair trade, organic and UTZ certifications. OCFU has used the fair trade premium for educational, health, and water services for its members. The organic production of the coffee entails chemical-free farming, and intercropping to increase the soil fertility. Coffee is grown together with fruits, spice plants and roots crops which can be used for dietary diversification for the farmers families and/or sold in the local markets.

OCFU directly exports their coffee to the international markets of Europe, America, and Japan, and is therefore able to avoid middlemen in the process, increasing the bargaining power and income for the farmers. The types of coffee exported by OCFU include organic certified coffee, fair trade certified coffee, double certified coffee (organic and fair trade), and conventional coffee.

OCFU has been a success story on many levels. The membership of the union has grown to include 197 primary co-operatives. Roughly 70-80 percent of the net profit is paid back to the members as dividend. While in 2002 the dividend was 262 855 Ethiopian Birr, in 2010 the number was already Birr 42 818 241. However, challenges also remain, including the increase of participation of youth and women, managerial skills at the primary co-operative level, and low production levels.

<sup>4</sup> Based on Bäckman 2009; Meskela 2011; OCFU 2011; Fairtrade Labelling Australia & New Zealand & Oxfam Australia 2009.

**Table 4** Green Profile of OCFU

	<b>Oromia Coffee Farmers Co-operative Union, Ethiopia</b>
<b>Year of Establishment</b>	1999
<b>Type of Organization</b>	Co-operative Union
<b>Level of Operation</b>	Oromia-region of Ethiopia
<b>Type of environmental business</b>	Organic farming
<b>Type of environmental product</b>	Organic coffee
<b>The extent of environmental aim</b>	By-product
<b>Type of customer</b>	Businesses, customer
<b>Key Incentives for customers</b>	Fair trade, free market
<b>Beneficiary</b>	Coffee farmers of the union and their communities
<b>Type of Green Entrepreneur</b>	Innovative Opportunist

## FOOD & TREES FOR AFRICA, SOUTH AFRICA<sup>5</sup>

Food & Trees for Africa FTFA was established in 1990, when a group of South African environmentalists came together concerned about the level of the environmental degradation in the country. It was decided that the challenge should be met simply by “re-greening” the landscape. Today, FTFA still claims to be the first and only South African social enterprise that addresses “sustainable development through climate change action, food security and greening, with a strong focus on environmental and global warming education and awareness”.

The core aims of the FTFA today include environmental preservation and ensuring food security for the poor. These aims are met through the programmes of the enterprise, which include:

- *Trees for All*: A programme aiming to mitigate the impacts of climate change through providing and planting indigenous or fruit trees for communities. To date, close to 4 million trees have been planted in South Africa to communal surroundings such as clinics, orphanages, schools, and police stations. FTFA is working with companies to fund trees through small

projects such as changing into paperless billing, recycling, and voluntary carbon offset.

- *Trees for Homes* seeks to provide low-income communities with trees “to address climate change, improve quality of life and create sustainable settlements”. Through this initiative, training, environmental awareness and short term employment opportunities are provided.
- *Bamboo for Africa* programme introduces rural communities to the potential of bamboo growing for income generation. Communities are encouraged to form co-operatives to manage the project.
- *EduPlant* is a public-private partnership programme educating educators, learners and communities on how to grow food in a sustainable way, for better food security
- *Food Gardens for Africa* answers to requests from schools and communities to develop food gardens and small scale farming projects. Focus is on food security, food sovereignty and food safety.

Annual turnover of the social enterprise is roughly Rand 15 million, and in the future they hope to spread their activities to cover the larger Sub-Saharan Africa.

<sup>5</sup> Based on ILO 2011b, and Food and Trees for Africa website (2011)

**Table 5** Green Profile of FTFA

<b>Name of Social Economy Enterprise</b>	<b>Food and Trees for Africa, South Africa</b>
<b>Year of Establishment</b>	1990
<b>Type of Organization</b>	Not for profit company
<b>Level of Operation</b>	South Africa
<b>Type of environmental business</b>	Environmental preservation & food security
<b>Type of environmental product</b>	Greening services for companies (e.g measuring carbon footprints), urban forestry
<b>The extent of environmental aim</b>	Main
<b>Type of customer</b>	Companies, government
<b>Key Incentives for customers</b>	Industry pressure for compliance (environmental obligations)
<b>Beneficiary</b>	Disadvantaged communities
<b>Type of Green Entrepreneur</b>	Visionary Champion

### ECOTACT, KENYA<sup>6</sup>

Ecotact is a Kenyan social enterprise established in 2007 by Mr David Kuria and Mr Kamithi Ngaga to meet the problem of poor sanitation conditions in Kenyan urban slums through a private sector approach. In Kenya, only approximately 50 percent of the population has access to sanitation. Ecotact's overall mission is to strive "to develop innovative answers to the growing environmental sanitation cry in Africa and globally."

Ecotact carries its mission through the establishment of Ikotoilets, "toilet malls", where people can use the toilet and shower facilities against a small fee, and during the same visit have their shoes polished, and buy a newspaper, airtime for their cell phones, or a snack. The cost for an Ikotoilet unit is roughly USD 25 000 and in most cases, the Ikotoilets are built in co-operation with the municipalities using the model of Build-Operate-Transfer (BOT). Ecotact will not pay rent for the municipal land on which the toilets are built and operates the toilets for a five year period, after which the facilities are handed over to municipalities with no extra cost. Ecotact has also begun to franchise Ikotoilets. Each unit provides decent employment for a minimum of 10 operators.

While Ecotact has benefitted from funding from foundations and corporate social responsibility funding, the Ikotoilets generate income from user's fees, advertisements, and rental fees. Part of the mission has also been to change the image attached to sanitation by making the Ikotoilet brand attractive and fashionable. Ecotact engages professional landscaping and interior design companies, and has carried out community awareness-raising on the importance of hygienic sanitation.

The Ikotoilets are built in an eco-friendly way by using the green sanitary technologies of low-flush toilets, water saving taps, a dry toilet system, a bio-digestion system, a urine harvesting system and waterless urinals, and tanks for rain harvesting. In some cases solid waste is used to produce methane gas, and harvested urine is processed to be sold for the further production of fertilizers.

During the first two years of operation of Ecotact, 45 Ikotoilets were established, and Ecotact aims to establish facilities in the neighboring East African countries of Uganda and Tanzania. In the future, Ecotact hopes to develop Iko-villages, housing models that optimize ecological sanitation by reusing and recycling of water and nutrients recovered from human faeces and urine.

<sup>6</sup> Based on the case study developed by Karugu (2011).

**Table 6** Green Profile of Ecotact

<b>Name of Social Economy Enterprise</b>	<b>Ecotact, Kenya</b>
<b>Year of Establishment</b>	2007
<b>Type of Organization</b>	Company
<b>Level of Operation</b>	Kenya, East Africa
<b>Type of environmental business</b>	Water & Sanitation
<b>Type of environmental product</b>	Environmentally friendly toilets
<b>The extent of environmental aim</b>	Main
<b>Type of customer</b>	Corporate Social Responsibility, Foundations, Communities (revenue from Ikotoilets)
<b>Key Incentives for customers</b>	Free Market , environmental obligations
<b>Beneficiary</b>	Low income households in squatter areas
<b>Type of Green Entrepreneur</b>	Visionary Champion

## NURU LIGHTS, RWANDA<sup>7</sup>

Nuru Lights, also known as Nuru Energy, is a for profit company founded by Mr Sameer Hajee in 2008 with the seed funding from the World Bank's 2008 Lighting Africa competition. The social enterprise used the World Bank funding to develop and field test its product, the Nuru lighting system, in Rwanda. The business is currently registered in Canada and in Rwanda, and has links with a Canada-based international NGO Lights for Life that provides lighting for school children.

According to statistics, 4 billion people in the world have unreliable access to electricity, with 2 billion without any access at all. Nuru Lights seeks to answer this lighting problem in the world by providing safe lighting to replace the kerosene lamps used by remote communities. Kerosene is a fossil fuel, and using it has several disadvantages for the health and safety of communities. Kerosene is relatively expensive, produces insufficient lighting, releases harmful fumes when burnt, and has been the origin of various live fire accidents.

To replace kerosene as a source for lighting in rural poor areas, Nuru Energy uses the Nuru lighting system which is based on a low-cost modular lighting system which can be bought without ex-

pensive chargers. Nuru lights are sold at a low-price to the communities via a network of local entrepreneurs who can take micro-loans to buy the pedal chargers and a suitable amount of lights. With the income from selling and charging the lights, they are able to pay back the loan, and generate income for the future. Nuru Lights has developed a Nuru POWERCycle pedal generator for recharging its lights, but also solar and AC chargers can be used for re-charging. One charge provides approximately 20-40 hours of light.

The activities of Nuru Lights will decrease carbon emissions when kerosene lamps are being replaced while generating income and employment for the small entrepreneurs that sell and recharge the lights. In addition, there are health benefits and social benefits, as for example school children can extend their studying hours to after dark. Nuru Lights started its operations in Rwanda, but has spread its activities to India and is striving to reach other East African countries also.

<sup>7</sup> Based on the website of Nuru Lights (2011), Lights for Life website (2011), and Karrick 2009.

**Table 7** Green Profile of Nuru Lights

<b>Name of Social Economy Enterprise</b>	<b>Nuru Lights, Rwanda</b>
<b>Year of Establishment</b>	2008
<b>Type of Organization</b>	Company with links to Lights for Life international NGO
<b>Level of Operation</b>	International (India, East Africa)
<b>Type of environmental business</b>	Lighting
<b>Type of environmental product</b>	Environmentally lighting (substituting kerosene)
<b>The extent of environmental aim</b>	Main
<b>Type of customer</b>	Donors, local entrepreneurs and communities
<b>Key Incentives for customers</b>	Free Market
<b>Beneficiary</b>	Rural Poor
<b>Type of Green Entrepreneur</b>	Visionary Champion

**THE UNION OF WOMEN PRODUCERS OF SHEA PRODUCTS OF SISSILI AND ZIRO (UGPPK-S/Z), BURKINA FASO<sup>8</sup>**

The Union of Women Producers of Shea Products of Sissili and Ziro UGPPK-S/Z, was formed in 2001 as a women’s co-operative union for the in the Shea butter business in Burkina Faso, in the areas near to the border of Ghana. Today, the union represents roughly 3000 women producers organized in 67 women’s groups on the village level.

Shea nuts and butter have a great economic and nutritional value as they can be used for local foods and soap but also are also valuable export products for the cosmetic and chocolate industries in the West. In Burkina Faso, one of the biggest exporters of the nut, it is estimated that Shea nuts account for 20 percent of family income, and roughly 300-400 000 women work in the Shea-business. Harvesting and processing have been traditionally done by women.

The union was born out the difficulties of women farmers to access the international markets on their own, with the aim of improving the income of its members. More exactly the unions aims to:

- Build the capacity of the producers to ensure the quality and increased production

- Organize and coordinate the marketing of the products
- Search for market opportunities

UGPPK has been fair trade certified since 2006, and organic certified since 2007. Products exported to the international markets include therefore organic, organic and fair trade, fair trade and conventional shea butter. In the production, UGPPK uses a semi-industrial method that is based on the traditional ways of production.

With the capacity to produce 600 tons of Shea butter a year, UGPPK exports annually over 150 tons of Shea butter to international markets. The revenues of the co-operative union have more than doubled between 2001-2008. The union has been able to engage to social activities through the fair trade premium and other projects. The Union has for example improved their Shea butter processing facilities, improves school equipment, trained women in literacy, and built a children’s day-care center.

<sup>8</sup> Based on UNDP 2010, Fairtrade Foundation 2009, and UGPPK-S/Z website (2011).

**Table 8** Green Profile of UGPPK-S/Z

<b>Name of Social Economy Enterprise</b>	<b>The Union of Women Producers of Shea Products of Sissili and Ziro, Burkina Faso</b>
<b>Year of Establishment</b>	2001
<b>Type of Organization</b>	Co-operative Union
<b>Level of Operation</b>	Sissili and Ziro provinces of Burkina Faso
<b>Type of environmental business</b>	Organic farming
<b>Type of environmental product</b>	Organic Shea Butter
<b>The extent of environmental aim</b>	By-product
<b>Type of customer</b>	Businesses, customer
<b>Key Incentives for customers</b>	Fair trade, free market
<b>Beneficiary</b>	Women Shea butter farmers of the union, and their communities
<b>Type of Green Entrepreneur</b>	Innovative Opportunist

## CONCLUSION

Through the examples given from the continent of Africa we can see that SEEs are already contributing towards the creation of green jobs and, therefore, sustainable development in various ways: by employment creation, income generation, advocacy, pooling of scarce resources, and by empowering their members. The case study social enterprises were already working in the sectors of organic farming (2), sustainable urban growth and planning (2), water and sanitation (1), and rural electrification (1), corresponding to the UNEP et al 2011 report on the sectors with most potential for green growth in LDCs.

For most of the analyzed enterprises the environmental aim was the main social goal, while it was sometimes difficult if not impossible to make a clear-cut distinction between other social goals and the environmental goal (for example urban informal housing – green housing technologies in the case of ADAPT). The case of the two co-operative unions featured in this paper however gives evidence to the fact that not always is environmentalism as a value behind the choice to green some aspects of an enterprise. Rather, in those two cases the enterprises had recognized an opening in the international markets for organic and fair trade products, and took full advantage of this, in benefit

the communities they intended to serve. For example, the primary social goal of OCFU clearly has been improving the Oromia coffee farmers' livelihoods on the grassroots level both by increasing their income and improving their access to social services. While the production of organic coffee is an important aspect in understanding the organization and its goals, it however can be seen as a "by-product" in service of the overall purpose of the union or as a means to reach this goal.

SEEs have also the potential to be powerful tools for empowering the populations worst affected by the climate change and environmental degradation, with varying levels of influence. For the co-operative unions of OCFU and UGPPK, the level of operation was clearly local and defined by the members of the unions. These union members consisting of poor farmers were, together with their communities, also the primary beneficiaries of the enterprise. The four enterprises whose main social goal was defined green, the operational level and ambitions went beyond local. Even in the case of FTFA, currently operating within South Africa, the aim was to spread their activities to the Sub-Saharan region. In almost all of the cases studied, the customers of the enterprises were different from the final beneficiaries, and the enterprises used mixed funding sources to finance their activities. These included donor funding, selling of ser-

vices and products, and consultancies, and taking advantage of corporate social responsibility and similar environmental obligations faced by businesses and industries. At the same time, the final beneficiaries of the activities represented the poorer segments of the societies or the informal sector.

In addition, the case studies chosen for this paper demonstrate the creative nature of social economy enterprises in relation to being hubs for green innovation, and answering current environmental problems with creative solutions. In the case of ADAPT, for example, this was achieved through the creation of new mixed building materials and utilizing the local resources. Moreover, rather than seeing the informal economy as an obstacle, ADAPT approach the sector as an important resource and source for innovation, with successful results.

Finally, while social economy enterprises clearly exhibit potential for green economy and

green jobs, and fighting the effects of climate change, also huge challenges remain. Changing climate conditions will hit hard the rural communities of Africa and the rest of the developing world, and a holistic approach is needed to mitigate these impacts. There is also a lack of research in the field of green economy and social economy enterprises, and more information, also quantitative, is needed on this topic. The practical solutions developed by many of these enterprises need to be further studied, and if possible, replicated in new surroundings. A further challenge are the social enterprises outside of the scope of this paper, namely those who do not yet contribute toward green growth and will need assistance in making the transition into green economy. Methods and tools contributing to greening social economy enterprises, also on the administrative and management levels, and raising the awareness of social economy enterprises on climate change, need urgently to be developed.

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# LEARNING ENVIRONMENTS OF ENTREPRENEURSHIP EDUCATION

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The innovation strategy of the European Union highlights the importance of the development of entrepreneurial culture by fostering the right mindset, entrepreneurship skills and the awareness of career opportunities (European Communities 2006). These EU-lines fit nicely with the UN International Year of Co-operatives 2012 global campaign, which presents an excellent opportunity to increase public awareness about co-operative and social economy. Recently in Finland, there has been also a great interest to develop learning environments in education (Ministry of Education, Finland 2009).

The role of learners in many learning environments often calls for something other than traditional “study”, even though it involves learning. At the same time the teacher’s role changes in the learning environment (classroom, virtual, outside school), basically from a specialist trainer to the planner of the learning environment (Manninen, Burman, Koivunen, Kuittinen, Luukannel, Passi & Särkkä 2007, 12). In education, teachers are in the main role, so, to develop the learning environment of entrepreneurship education, we point out the need for developing also the teachers’ role as entrepreneurship educators and entrepreneurship education itself.

According to Kyrö (1997), entrepreneurship education deals with three main components: 1) self-

oriented, 2) internal and 3) external entrepreneurship. Self-orientated entrepreneurship refers to an individual’s self-oriented behavior. Self-oriented entrepreneurship is the basis for developing internal and external entrepreneurship (Remes 2004, 84). Since entrepreneurship education has not yet established its position in teacher education and in the continuing professional education of teachers (Seikkula-Leino 2007), inclusion of entrepreneurship education in school curricula is very challenging. It is not only what we teach - it is how we teach and the learning community we create in the classroom or in the virtual learning environment (Kirby 2004).

The five views of learning environments presented here are alternatives and complement one another. They also partly overlap. Nevertheless, they represent different viewpoints with regard to learning environment problematics and thus focus on the slightly different special features of the learning environment. They are: physical, social, technological, local and didactic. (Manninen et al. 2007.)

In this paper we’ll try to connect learning environments –thinking to entrepreneurship education through experiences and data from real entrepreneurship-cases. We concentrate on learning environments in the context of entrepreneurship education and co-operative thinking. The data was obtained from an entrepreneurship education learning environment competition for educational institutions, which was held in Central Finland from September 3<sup>rd</sup> to November 30<sup>th</sup> 2010 and it will be connected to experiences from Proacademy Finland –case (Hytinkoski 2010). The purpose of the competition was to identify different entrepreneurship education environments, make them

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available for research and distribute information on people interested in active entrepreneurship education.

In sum, our focus is to present a conceptional framework of entrepreneurship education in terms of learning environments of entrepreneurship education and give some implications for practice from this point of view. In the end we discuss possible connections and benefits between entrepreneurship education cases, co-operative thinking and planning of learning environments.

## ENTREPRENEURSHIP AND ENTREPRENEURSHIP EDUCATION

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Entrepreneurship education on different school levels has been studied in recent years. Research shows that with entrepreneurship education it is possible to increase the activity and entrepreneurship of citizens. On the other hand, the studies of Seikkula-Leino (2007) show that different activist of entrepreneurship education, for example people from the field of teaching and business life, don't know enough about the goals, content, methods and evaluation of entrepreneurship education. So who is responsible for the planning and executing of entrepreneurship education?

It seems that with traditional school-solutions such as classroom teaching and lectures we can't strengthen the developing of entrepreneurship education. The challenges are concentrated on the developing of learning environments. What are the learning environments of entrepreneurship education, what do we do with them and how should we produce them?

In this article we present a study related to the developing of the learning environments of entrepreneurship education. The data is from a contest arranged by the YES-center in Central Finland for different school levels. In this contest different school organizations were encouraged to describe their versatile learning environments of entrepreneurship education.

Entrepreneurship can be conceptualized differently depending on who defines it. For example researchers of education and business economics approach it from different viewpoints. Shane & Venkataram (2000) highlight that the observation of possibilities is attached to entrepreneurship, and therefore entrepreneurship contains innovations, evaluation and the seeing of new opportunities. Gartner (1990) believes that the view of entrepreneurship education is tied to two ideas. Some believe that entrepreneurship means people who take

risks and are innovative. Others believe that entrepreneurship means the starting of companies.

Entrepreneurship is also connected to entrepreneurship education and education. The defining of entrepreneurship, as well as the concept and theory of it, are still unclear (see Fiet 2001; Mc Mullan & Vesper 2002). In the end, entrepreneurship education is citizenship- and civic education that affects talents, believes and entrepreneurial action (Seikkula-Leino 2007). The development of entrepreneurial action is connected to personal life and the reaching of professional and economic goals. Entrepreneurial people are active in different sectors of society – both profit-making and non-profit sectors. Entrepreneurship education is about setting educational goals, such as starting new companies, developing companies and business ideas. These goals are both for individuals and groups. The starting and rationalization of companies are tied to the inner action of both the society and different communities.

The types of entrepreneurship, according to Kyrö (1997), are spontaneous, internal and external. Spontaneous entrepreneurship is connected to a person's active lifestyle. In internal entrepreneurship not only one person but the interaction within the group and the activity of it are emphasized. External entrepreneurship underlines real entrepreneurship and the knowledge about it. Later Kyrö (2005) has expanded her division, and the new elements of entrepreneurship are 1) the entrepreneurial method of an individual, 2) external entrepreneurship referring to owning a small company and leading it, 3) organizational entrepreneurship and 4) internal entrepreneurship that is connected to the dynamics of entrepreneurial activity of the individual and organization. Gibb (2006) underpins how entrepreneurship is understanding, the learning of an active way of life and developing into an entrepreneur (check also Paasio & Nurmi 2006). This research concept of entrepreneurship education contains the elements of Kyrö (2005) and Gibb (2006).

In spite of their long evolution and successful adaptation to changes, co-operatives have not been recognized as especially interesting by the mainstreams of university research and curricula in economic or social studies. This seems to be the situation in Europe and also in most other countries. This is paradoxical because vertically and horizontally coordinated production and marketing systems, such as co-operatives, have often proved to be the most effective solutions to combine scarce resources for survival in difficult conditions. This applies also to the conditions of market failures. Throughout the history this has been the

case in sparsely populated areas without sufficient markets for welfare services. (Köppä & Hytinkoski 2008.)

If one important goal of entrepreneurship education is to “develop a participatory, active citizenship, enhancing creativity and innovation in education and training, in leisure activities and in working life (Ministry of education, Finland, 14)”, we have to take into account also the different values and views about human beings, both the society and economy and sustainable development. Co-operative principles and practices world-wide have created a rich reserve of experiences of finding ecologically, economically and socially sustainable solutions for problems of economic development. We are living problematic days of economic crises in Europe and there are also huge economic problems for example in the USA now. Maybe this is not only the economical crises – is it intellectual, too? So could co-operative thinking help to shift the focus of the earlier Homo economicus –paradigm to teach economy also with a social perspective?

## LEARNING ENVIRONMENTS

The learning environment –term seems to be popular in periods. Sometimes the term is highly used and then it is out of fashion again. The last peak of the learning environment –term was about ten years ago at the time of the rise of e-learning. After that the learning environment –term has been used so often with educational use of information and communication technology (ICT) that many still believe that it belong only to the e-learning rhetoric. But now when we are slowly moving forward from the traditional curriculum-based learning approach, the interest to discuss the learning environment has increased again. The modern view is that the learning environment -term could be used in three different ways:

1. The learning environment as a pedagogical model guiding the planning of teaching and education.
2. The learning environment as a way of thinking.
3. The learning environment as a fashionable term (also open learning environments etc.)

(Manninen et al. 2007)

The five views of learning environments presented here are alternatives and complement one another. They also partly overlap. Nevertheless, they represent different viewpoints with regard to learning

environment problematics and thus focus on the slightly different special features of the learning environment. They are (Manninen et al. 2007):

1. Physical – the learning environment is viewed as a space and a building, the background theory being provided by architecture or space planning/design.
2. Social – the learning environment is viewed as interaction, with the theoretical basis being provided by social psychology, group processes and communication.
3. Technological – the learning environment is viewed from the angle of educational technology, the frame of reference for which is information and communication technologies in teaching.
4. Local – the learning environment is viewed in terms of places and areas; the spaces for learning are seen as places outside school, such as “the real world”, places of work, the countryside, the city.
5. Didactic –the learning environment is viewed from the angle of an environment that supports learning, at the heart of which are various study materials, support for learning, and didactic and pedagogic challenges in general.

Manninen and his team (2007) underline especially the meaning of the fifth – didactic - viewpoint which brings a real “spirit of learning” to the environment. Physical (building, architecture, space design), social (human interaction, group processes, communication), technological (educational use of ICT) and local (places and area outside school) elements are important but those will not promote real learning if they are just numerous loose parts. The didactic viewpoint should at its best gather different elements together and make an entity from them. In this paper we rely on Manninen’s and his groups ideas (2007).

There is a pedagogical model called constructive alignment, the main purpose of which is to design a teaching system that supports and encourages students to adopt a deep approach to learning. The teaching- and learning process should be organized so that different elements are in alignment which each other. If this happens, this wholeness supports learning. Contradictory inner conflicts of the elements of learning and the learning environment disturb and interrupt learning. (Biggs 2003; Manninen et al. 2007; Löfström, Kanerva, Tuuttila, Lehtinen & Nevgi 2010). So pedagogical

solutions are important – but where do they come from? Pedagogical solutions come from the teachers' conscious and subconscious conceptions of learning.

## LEARNING ENVIRONMENTS OF ENTREPRENEURSHIP EDUCATION?

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Finnish Ministry of Education (2009, 17) defines that in a learning environment that supports entrepreneurship:

- *the focus is on the learner's own activity*
- *learning also takes place in a simulated or real-world setting*
- *learners can directly interact with entrepreneurship*
- *instruction is based on problem-solving and interaction*
- *the learner has the support of various expert organisations*
- *the teacher's role evolves from a disseminator of information to an organiser, guide and learning environment planner*

The Finnish Ministry of Education has published "Guidelines for entrepreneurship education" (2009), which outlines the shape of the future to come, forecasting a desirable state of affairs in 2015. This already effective and well-known publication emphasized the meaning of learning environments that "*promote networking and are in place in teachers' initial and continuing education, using, for example, the possibilities of virtual environments*" (2009, 15). To the Finnish Ministry of Education learning environments of entrepreneurship mean "*the physical, psychological and social setting for learning. The challenge in developing learning environments to support entrepreneurship education is using pedagogical solutions – teaching methods – that guide learners towards entrepreneurship and entrepreneurial operation and to see the potential in them* (2009, 17)."

Learning environment as a pedagogical model guiding the planning of teaching and education and as a way of thinking seems to fit to the challenges of entrepreneurship education. Could these elements be combined? These ideas seem to be some kind of a zeitgeist of our times. You can find challenges and goals mentioned earlier in different entrepreneurship education programs, in goals and the educational use of social media. Still the writers of this paper haven't really seen discussion about what the

learning environments of entrepreneurship education could really be like. This is one goal of this paper – to raise ideas about learning environments of entrepreneurship education.

Today's pedagogics observes in addition to an individual's inner information processing processes also the impact of the physical and social environment on learning (for example Lehtinen 2003). The impact of the environment only on learning is just a partial truth, real learning is created when the learner has the courage to be in reflective interaction with both the learning content and his or her learning environment (for example Tynjälä & Collin 2002; Poikela 2005). This way we are close to also the themes of learning by working, the research and development of which are strongly increasing (Collin 2007). According to Collin (2005; 2007), learning by working can be described with the help of the following observations:

- Learning by working is coincidental, and it is strongly connected to working.
- Earlier (work) experience is the basis of learning.
- Learning by working is social and communal, and it is environment-bound.

Although school has, in the students' opinion, lost some of its status as the source of the most important "real" learning (for example Aittola 1998) and students consider school and work as different learning environments (for example Collin & Tynjälä 2003), it is worthwhile to aim at the combining of the needs and situations of working life, the content of education and the different skills of the student group. When we discuss the learning environments of entrepreneurship education, could we use also ideas from learning at the workplace?

## LEARNING ENVIRONMENT –CONTEST OF THE YES-CENTRE IN CENTRAL FINLAND

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The meaning of the learning environment –contest was to find the different learning environments of pre-school teaching, schools and other educational organizations and to spread information about them for the use of people in the field of entrepreneurship and education. The contest also tried to find information about the learning environments of entrepreneurship education for the use of research. One goal was also to bring up this kind of special expertise of different school levels. The

contest was organized 3.9.2010-30.11.2010 by the Yes-Centre of Central Finland. The Finnish YES-centers offer entrepreneurship education services for basic education, general and vocational upper secondary schools in different regions of Finland.

The contest was organized by the YES-centre of Central Finland together with Keski-Suomen Litto, Keski-Suomen Yrittäjät ry and Keskimaa Osk. The jury consisted of the Finnish entrepreneurship education specialists.

When deciding on the winner of the contest it was evaluated how well five views (physical, social, local, technological and didactical) have been taken into account in the learning environment of entrepreneurship and how the learning environment supports the goals of entrepreneurship education.

Schools participated in the contest by answering questions about learning environments of entrepreneurship education. Questions were to be found on the web pages of the YES-centre of Central Finland. Contest info was delivered through these web pages and widely with emails to many different organizations and networks. Finally eight schools participated in the contest from elementary schools to the secondary schooling level. Six schools answered in writing and two schools answered through an interview with the project manager of the YES-centre and by revising the interview memo later into a form of official contest answer. Organizers of this competition hoped that names of the participated schools aren't mentioned in this article (in this article: school I-III, secondary school (I) and upper secondary school I-IV).

With the contest questions there was information about the concepts of entrepreneurship education, the learning environments of entrepreneurship education and entrepreneurship (Ministry of Education 2009; Manninen et al. 2007) as well as about the five guidelines of entrepreneurship (Manninen et al. 2007). Also the concept of innovation used in many questions was defined (Siltala 2009). The outcomes of learning environment – contest findings through five views of learning environments (Manninen et al. 2007) are presented in the following:

## PHYSICAL

The desks of school classrooms were changed to form for example groups or an arc to encourage interaction. Different kinds of physical environments were used, not only classrooms but lobbies, computer rooms, the room of the student union. The students of upper secondary schools have the opportunity to choose a space to do things except for

common meetings. In comprehensive schools the teacher gives the students the possibility – when studying together (two or more when gathering picture-material) - to choose their own space. In the time of new technology these kinds of small modifications and solutions may sound small and old-fashioned but still they make a big difference in the everyday life of children. Special: in upper secondary school I they were planning to arrange a space for the business activities of students studying entrepreneurship.

## SOCIAL

The students in all the schools were in interaction with different-aged other students. The students in every upper secondary school and in some of the comprehensive schools were in interaction also with companies. Special: The students of upper secondary school II have a versatile network: the students were in interaction with different-aged students, coaches, company godfathers, companies, the village, the authorities, the local entrepreneurship union, the bank and with other teachers and students.

There were goals set for the interaction: the developing of projects or companies and going forward and the making of deals were hoped to be reached. In elementary schools the goals of interaction were also decision-making, the bravery to meet people and respect their opinions. Three out of four upper secondary schools underlined the importance of networking and learning from the network and in the fourth one these goals were really actualized. In upper secondary school III they try to spar other students, bring out success and failures for learning and for raising silent information. Also the schools of I and II had these kinds of goals. Special: in upper secondary school III the importance of spreading knowledge and experiences, the common understanding of the different phases of a project and the team and the bringing up of difficult things were emphasized. Still interaction with companies wasn't so clear in the upper secondary school, except in upper secondary school II. On the upper level of comprehensive school the interaction with companies was easier to see.

The students in secondary school try to find and start interaction with school's partners in co-operation by themselves. Learners are active in starting interaction also on the lower level of the comprehensive school when the goal is to sell products and to operate with partners in co-operation.

The students are inspired for innovating, taking reasonable risks and reaching goals with a

good learning atmosphere. In many cases “crazy ideas” were accepted and even wanted. The students are given responsibility. For example in upper secondary school IV risks are controlled and balanced through tutoring from the group and also the teacher brings up important issues like project timetables. Enough time is used for ideation and the choosing of ideas. In upper secondary school II the decisions come from the students and they also have responsibility. In upper secondary school III the students get tasks that demand personal involvement. On the upper level of the comprehensive school risks are managed by practicing interactive situations beforehand.

Special: In school II interaction directs students in a direction where school success is not the most important topic of discussion. In the school I interaction (feedback) is the source of new ideas. Upper secondary school I strived at interaction also with other schools’/organizations’ practice companies.

## LOCAL

Every case-school used real situations like selling products in shopping centers, running a cafe, publishing their own magazine, running a 24-hour-camp for students, arranging a live music concert, ideation for the needs of companies and doing assignments for companies.

Every school also used simulated situations like the practicing of selling and customer service, “new companies” –practice companies, the practicing of real work on fairs and phone contact practice. Many times the goals of simulated situations were the building of a network or acting in it.

Working outside schools was target-oriented. There were many goals to reach: making money, organizing products or happenings, co-operation, surpassing one’s own boundaries, perseverance with big projects, creativity and certainty for the real situations to come, talent and courage to act with people, running practice companies, doing different tasks demanded by projects and having courage in real situations.

The students from the lower level of comprehensive school were interacting outside school with students and parents. The students from secondary school were interacting with entrepreneurs, customers, entrepreneurship counselors, experts and companies that had given them assignments. One upper secondary school informed us that their students have the capability to be in contact with anybody.

Special: school I’s cafe was a moving learning environment. In upper secondary school III the

social media was compared to a physical place because the social media was used as an environment outside school.

## TECHNICAL

Technology was used for the doing and marketing of the students’ work or products, building networks, opening connections and exchanging and delivering information.

The most common computer programs and technology were used. In secondary schools Facebook and Pedanet (a Finnish tool for teachers) were used. The students of the lower level of comprehensive school were connected through technology mainly with other students and parents but also a little with the surrounding schools. The students of secondary schools were in contact in addition to each other with their customers and enterprises.

When creating new information the secondary schools worked through information technology especially in the ideation phase and the work process was visible to the students. In the upper secondary schools they used for example Facebook and Pedanet in this phase, the upper level of the comprehensive school used Pedanet and blogs. Additionally, they could see the ready work. On the lower level of comprehensive school mainly the ready work could be seen through information technology.

Special: In upper secondary school III the social media was used a lot. They also had web conferences. They used Slideshare, Facebook, Twitter, Google docs in the common writing of the team, YouTube and Weblu in negotiations. Web conferences were still mainly used by the teachers, not the students. In the school I information technology was used to collect feedback that was later used for new ideas.

## DIDACTIC

Students had responsibility in every case-description. The teacher acted as a coach or guided them with questions. In one upper secondary school case-description it was told that the teacher’s role gets more invisible when the process goes on.

The setting of goals was promoted so that in secondary schools student teams were let to guide the reaching of goals. At the lower level of comprehensive school other students helped by setting an example or telling about their experiences in earlier years. In some cases the reaching of goals was aimed at through the students’ role differentiation. In secondary school (I) the teacher’s feedback guid-

ed the students but also the students' self-evaluation and peer evaluation were important.

Taking risks was rehearsed through real situations. Three schools mentioned the support gained from a group or a two-student-team as a tool of managing risks. Two schools told that the coach/teacher will make sure that the risk is not too big.

Students were challenged to learn innovation-capability through free innovating (for example brainstorming) in six case-descriptions. In two schools innovation-capability was promoted through a positive atmosphere. In upper secondary school III innovation-capability was supported by creating situations for which the students have to find a solution. In secondary school (I) the students had to set their own goals and shape them along with the work-process.

What had been learnt in one's free time was used in the teaching so that on the lower level of comprehensive school products made in the free time were sold and the students earned money for their share of camp school expenses by working at home. On the upper secondary level the skills learnt in the free time were aspired to be used in the students' business activities. Specials: In upper secondary school III the use of Facebook in one's free time was seen as an important tool for marketing and communication. In the upper secondary school II entrepreneurship studies apprenticeship contract is made. In this apprenticeship contract they map each student's hobbies and talents and how the students use these skills in their own life (developing in one's free time, activity in job seeking). In the secondary school (I) the students spontaneously act in the sustainable development club and drama club in their free time. The upper secondary school I gives course achievements for students for their free time activity.

Students acting in different roles was connected to being different. In most case-descriptions the students were given roles according to their different capabilities. In three cases the students had tried also other roles than just the ones they felt most comfortable in and had learnt this way. In the upper secondary school IV the teacher develops student equality and encourages the students: everybody has to be heard and if a student is not ready for something he/she can proceed with his/her own rhythm and the teacher and the group ask later if the students is ready for it.

The planning for the next year, related to the entities of goals, planning and realization, was described in two case descriptions. In the first this was done by coaches and in the other (the upper secondary school II) by the students together with

the teachers, the principal was involved as an expert, not as a team leader. In two lower levels of the comprehensive school the goals of the students were important, for example collecting money for something. In two cases the school's goals of entrepreneurship education and the connecting of these to the teaching, for example the finding of the students' own strengths and their trusting in their own capabilities, were brought up, in the other also a small peek at the business world. In the upper secondary school I there were ideas about planning the students' role in developing learning environments (the students are involved in teacher meetings, working groups, they work as assistant teachers or team leaders – responsibility according to one's capabilities).

## DISCUSSION

The cases presented here are positive examples because no organization had an obligation to take part in this contest and they became also material for this paper. So these cases may present "the best practices" amongst the teaching of entrepreneurship education.

From the local view of entrepreneurship education, organizations seem to "open their windows and doors" to the local area outside school. This could be everyday life in some countries but in Finland this is a big change. Finland has many times topped the rankings of the best educational system in the OECD Program for International Student Assessment (PISA). Still, and partly because of this, the Finnish educational system has been criticized because of the amount of curriculum based on classroom teaching. With this tradition – well-trained teachers and safe classroom teaching – Finns have got proximately far but there has been and there is constantly more pressure to open school doors and meet the world.

This openness or closeness from the local area, business and working places and society seems to be also attached to the use of technology in education. In almost every case the possibilities of technology – especially the social media – were used in different ways. This is positive if the students have been told how they can use especially the social media safely. Young people know a lot about the possibilities of new technology but only their own experience isn't enough – they have to be advised how to use the internet safely (no names, pictures, how to be polite and so on) with a safe "netiquette". This is especially important in these kinds of testing/development projects of teaching when even

teachers and schools don't yet have enough experience on this kind of teaching.

Children and teenagers should also be carefully advised when they go out to do tasks physically (locally) outside school (traffic, safe routes). Students should also be prepared to handle tasks in socially positive ways (manners, the interaction between students, teacher and schools cooperators). But again, everything is connected to the didactic/pedagogic tutoring of children. Student groups for example shouldn't only "make" visiting trips to companies but really think what the different goals (pedagogic, content, skills, social etc.) for learning also outside school areas are.

Doing and learning together seem to help the students when they are inside or outside the classroom. Entrepreneurship education should be built in a way that children could not perform alone – at least perfectly. This gives the students a real reason to voluntarily interact and work together. This makes a tight connection to co-operative thinking and an enterprise model of it. People start co-operatives because they want to or they have to try and work together. Maybe they just can't afford to start a company alone or maybe they want to combine their different resources. Because of the lack of knowledge (proximately) people just don't start a new co-operative company – they do it for many reasons; they do it because they want to.

In some cases there were not only spontaneous and internal elements of entrepreneurship involved but there were elements of external entrepreneurship, too. So students were producing their products and trying to market and sell them in certain situations. The possible profit isn't the number one goal here but understandably welcomed to be used for school trips or in other ways to benefit the students. If these kinds of elements of external entrepreneurship were used for entrepreneurial action, then it was performed with a group of students. For kids, working together is less scary and more fun. The students together are responsible for the outcome but of course in the end the teachers have the responsibility that the students learn safely.

This kind of "learning by doing together" or "learning by earning together" is highly connected to entrepreneurship education, being entrepreneurial and especially to co-operative thinking and being an entrepreneur in a co-operative. What is interesting is that modern understanding of entrepreneurship education seems in many ways to be connected to the co-operative principles, which are:

- voluntary and open membership;
- democratic member control;

- member economic participation;
- autonomy and independence;
- education, training and information;
- co-operation among co-operatives;
- concern for community.

Seikkula-Leino (2007) has mentioned how teachers don't proximately know enough about the goals, content, methods and evaluation of entrepreneurship education. Unfortunately, only few teachers seem to have earlier background of being entrepreneurial. Maybe this is the reason for the problem mentioned earlier? The other way around, it could be beneficial for entrepreneurs to have a background in the teaching field. Could it be helpful for teachers to get familiar not only with the basic ideas and goals of entrepreneurship education but also with different kinds of entrepreneurial business models? Teachers could be interested in having information on how they could use their skills also being entrepreneurial both alone and together because trained and experienced teachers have many skills that could also be offered to the private sectors. In many cases the action was based on the interests and talents of the students – it is easy to imagine that this is entrepreneurship education at its best because this way a person gets interested at the same time and learns something about the different aspects of entrepreneurship (Kyrö 1997; 2005; Remes 2004).

In the cases of this paper learning was active, versatile and many times something that people did together. Certain elements were surprisingly used, like the social media in some cases, but maybe different elements of entrepreneurship education should have been put together and in alignment with each other more clearly. If teachers really are responsible for the planning and executing of entrepreneurship education, could information on co-operation help them to organize their teaching, especially if they want to use the learning environment as a pedagogical model guiding the planning of teaching and education or as a way of thinking? Could these kinds of orientations benefit the planning of entrepreneurship education through co-operative thinking?

In some cases students have had their own physical space for their business/learning activities. This resembles the entrepreneurship education of older students also in higher education. Next we will present one more Finnish case – based on Hytinkoski (2010) – Proacademy Tampere. Proacademy is a unit of entrepreneurship of the Tampere University of Applied Sciences.

## PROACADEMY TAMPERE

The Tampere Proacademy operates as a part of the Tampere University of Applied Sciences in the centre of the town. The students of the Proacademy come from the other study programs at the Tampere University of Applied Sciences. The aim is learning by doing together and the studying takes place in one's own student enterprises, with obtaining information from the instructors and source books when needed. The Proacademy offers the study team enterprises a physical space. The student enterprises operate in their own posts (having an internet connection and all the basic programs available) close to each other and also the posts of the teacher-coaches are found in the same premises. The students have their own keys to be able to work also in the evenings and on weekends.

The Proacademy has good relationships with enterprises and the representatives of enterprises and they customize for example marketing research for companies in their student enterprises and as their final assignments. The study tasks are authentic and are closely related to the planning of the objectives, search for projects, planning, realization and evaluation of their own student co-operative. The studying is different from comprehensive school, upper secondary school or other institution of higher education, and some of the students experience this way of studying as too challenging and interrupt their studies during the first academic year. From the second academic year on the students finish their studies without nearly any exception.

The students get to choose the company form of their student enterprise, but at least in the autumn 2010 all the student enterprises of the Proacademy were co-operatives. The student co-operative is considered affordable, what comes to its starting expenses, and a flexible form of enterprise in the Proacademy, and therefore a very suitable learning environment for student entrepreneurship, where the student acts and learns together with others. The student co-operatives pay rent to the Proacademy towards the end of their studies, and the revenue is used on study material or visits/visitors. Some of the student co-operatives continue with small or big changes also after the studies. A few of these enterprises operate on the premises of the Proacademy, some of them on their own premises. The majority of the students do not necessarily become entrepreneurs, however, at least right after the studies, but they have practical experience on collective entrepreneurship, which may later become materialized also as entrepreneurship.

The coaches work as instructors and consciously strive at not interfering too much with the activity of the student enterprises with "the right solutions", but give optional theme introductions and regularly discuss with the groups and students. The special feature of the central activity of the Proacademy is exactly discussion, which is a part of every study day. The representatives of the student enterprises tell about their plans and realizations, which are also assessed together. Also the possible challenges and failures are talked through in order for everyone to learn from them and to be able to prepare and create solution models for corresponding problems in the future.

## LEARNING ENVIRONMENTS OF ENTREPRENEURSHIP EDUCATION AND CO-OPERATIVE THINKING

Proacademy Tampere and for example in many ways the same kind of a case - Team Academy Jyväskylä (Entrepreneurship Centre of Excellence of the JAMK University of Applied Sciences in Jyväskylä) - are interesting cases in terms of the views of learning environments of entrepreneurship education and co-operative thinking. These cases are maybe the best-known and most influential entrepreneurship education cases in Finland. In them, almost all the teams seem to operate as independent co-operative companies. Maybe because of that, both of these cases are organizations of universities of applied sciences and that is why Finnish universities haven't really found them in their studies. Both Proacademy Tampere and Team Academy Jyväskylä have made their own descriptions and studies about their action but this will surely change in the near future. A new Finnish university, the Aalto-university has already strongly noted the work of these organizations mentioned earlier.

The student co-operatives of Proacademy Tampere and Team Academy Jyväskylä work as a learning environment where students learn both theory and practice. The student co-operatives yield services (work, experience, study points and money) for their co-operative owners - the students. The money earned is invested in the "wellbeing and developing of knowhow" of the co-operative owners. In these cases co-operative entrepreneurship is seen as a flexible company form what works in the interfaces between educational organizations and local areas and between education and working life.

From the cases of the learning environment - contest of the YES-centre in Central Finland we did

find different elements of learning environments of entrepreneurship education. In these teaching cases for young children, the different elements of learning environments seem to be at least partly in alignment with each other. Still these cases could benefit from more advanced didactic planning of not only teaching but planning of different learning environments. But this is easier said than done. The problem of modern entrepreneurship education is that its goals are almost synchronized with the other modern goals of education, such as learning together, learning by doing, learning constructively and so on. Entrepreneurship education seems at the same time to win and to lose because of this. Without a developed evaluation of entrepreneurship education, its goals and elements at the same time exist and do not exist in everyday teaching and learning.

Tiikkala, Seikkula-Leino, Ruskovaara, Hytinkoski & Troberg (2011) notice that if we want to develop the evaluation of entrepreneurship education we have to take into account these elements:

- First, we have to define a common value-background, conceptualize entrepreneurship education as a phenomenon and find theoretical starting points, which help us to plan, execute and evaluate entrepreneurship education. With these we have to develop a strong framework for evaluation, which gives clear information on how different types of learning are defined.
- Secondly, we have to observe how different learning environments are taken into account in evaluation of developing-processes, plot what kind of methods we can use at the same time in the evaluating process and how evaluation could be developed as reliably as it could be.
- Thirdly, we have to observe the clarity and understandability of evaluation and the group which we are evaluating. We have to take care that evaluation involves the executing of entrepreneurship education and empowers its users. This makes evaluation of the development and empowerment of entrepreneurship education possible.

As in the e-learning boom in the 90's and the first years of the 2000's there have been numerous pilots and test projects of entrepreneurship education in the last few years in Finland. And also as in the e-learning boom, the developing of evaluation and more structured goals and bigger project-entities

comes with a delay – a few years later. The learning environment as a pedagogical model guiding the planning of teaching and education, and as a way of thinking, has been noticed as an important tool of entrepreneurship education. Elements of learning environments (Manninen et al. 2007) could also be used as tools of evaluation and developing of entrepreneurship education. Still, the “learning environment –thinking” doesn't solve everything and there is a possibility that the learning environment –term will be overused as a fashionable term in different project reports and especially in project applications.

Different entrepreneurship education cases could be planned and evaluated with the learning environment as a pedagogical model, but just as Tiikkala et al. (2011) argued, we have to also strengthen the developing and evaluation of entrepreneurship education also by defining the value-background, goals and redefining what learning is. Modern educational theories have a lot to give to the earlier much more business/economy-orientated entrepreneurship education, but it isn't enough. Universities of applied sciences didn't have to lock only onto different disciplines, objectivity and teaching content. Universities of applied sciences are also interested in skills and the applying of knowledge.

Something is still missing from the interfaces of the learning environments and the planning, executing and evaluating of entrepreneurship education. Could co-operative thinking offer a value-background, subjectivity and helpful remodeling to entrepreneurship education - content, skills and theoretical starting points? Could this also help to solve or at least to ease the problems between knowledge subjects and skill subjects? In building an information society, different knowledge subjects have taken space from skill subjects such as handicraft, art subjects and exercise at least in Finland but at the same time the need for the students' own thinking and knowhow have been underlined. This is complex because skill subjects are the core of schools because they create and support interdependency, one's own thinking and evaluation, creativity and ethicality. Could entrepreneurship education enhanced with co-operative thinking take the place of some kind of a subjective skill subject?

The co-operative is a form of enterprise: 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. From this definition to real small-scale or large-scale company-cases it could offer both

complementary content and practices to entrepreneurship education internationally. Co-operative thinking could also give value-background (both historical and modern) which is connected to real-life activity (learning, developing, working and enterprising). This connection between “co-operative studies” and entrepreneurship education would also benefit teaching of co-operation and social economy. Through this collaboration co-operative contents could be situated more organized way to the curriculums of universities, university faculties and teaching networks.

Earlier, we mentioned that to the Finnish Ministry of Education the learning environments of entrepreneurship mean *“the physical, psychological and social setting for learning. The challenge in developing learning environments to support entrepreneurship education is using pedagogical solutions – teaching methods – that guide learn-*

*ers towards entrepreneurship and entrepreneurial operation and to see the potential in them (2009, 17).”* The learning environment –views give fresh didactically workable possibilities for entrepreneurship education. In all these paper’s cases entrepreneurship education seem to be something that contain both content of learning as method of learning (also Remes 2003). This view connects interestingly to the double role of co-operative members who are both owners and customers of their company.

We writers suggests that co-operative thinking could bring new elements and content and through them, strengthen the planning, executing and evaluating of entrepreneurship education and its learning environments. Co-operative thinking could be a workable tool as a compensator between different and often complex elements of entrepreneurship education, so that the wholeness supports learning.

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# CO-OPERATIVES AND DEMOCRACY IN SCANDINAVIA: PAST, PRESENT AND FUTURE

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Co-operatives play a significant role in Scandinavian societies. As hybrid organizations with multiple goals they attract the attention of various academic disciplines. However, given differences between disciplines economists ask different questions than political scientists, even when studying similar subject matter, like associations and co-operatives. Economists often pose questions related to theoretical models or ask why certain organizations exist. So, they may analyze the transaction costs of co-operatives and private firms. Political scientists, by contrast, try to understand certain organizations by exploring what they do and how they do it. For example, they do not ask why political parties or pressure groups exist, but rather study what they do and how they do it. Often they compare and contrast similar organizations in different contexts or countries. 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. More specifically, how can they facilitate the smooth functioning of democracy? This chapter considers co-operatives and democracy in Scandinavia, taking the Swedish case as an illustration.

## INTRODUCTION: POLITICAL SCIENCE PERSPECTIVES

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This section introduces several different political science perspectives on voluntary associations and co-operatives.

### 1. THE TRADITIONAL “SCHOOL OF DEMOCRACY” ARGUMENT

Voluntary associations, including co-operatives and other non-governmental organizations, have traditionally been attributed an important place in

democratic theory as organizations that were independent of the state and they, therefore, became a cornerstone in early liberal writings. De Tocqueville (1830 & 1945) provides a fascinating explanation of American democracy in terms of an unlimited reservoir of civil engagement by ordinary citizens. Voluntary associations provided the key to understanding the development of democracy in the New World. They were considered, among other things, a school for learning democratic rules, thinking and behavior.

It should, nevertheless, be kept in mind that the era of agrarian society, composed of rural villages and small towns, observed by de Tocqueville at the beginning of the 1800s in America, has long since passed into history. Previously, society was based mostly on self-sufficient farmers that catered to their own needs and had little formal education. They lived on isolated farms, and perhaps only congregated in villages or towns on Sundays and holidays. Joining together in voluntary organizations to promote their common interests didn't infringe on their way of life, although it perhaps sometimes made it easier for them to pursue their own family interests.

Industrialization and urbanization were seen as the prime drivers of early societal change. In brief, the transition from rural, agrarian societies to post-industrial cosmopolitan societies has been dramatic in recent generations. Today post-modern Western societies are composed mostly of urban and suburban dwellers, many who live in multiple story 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 run-

ning water, showers, toilets, and some even an automatic lawn sprinkler system, rather than having to dig their own wells. They also have electricity, a refrigerator and freezer, a stove, radio, TV, microwave, dishwashers, washing machines, etc. 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 net, rather than 'spin yarns' or exchange local 'news' during their visit to town or to their church, as their ancestors did a few generations ago.

Not only has life and many of its artifacts changed dramatically during the past century and a half, but society and its social institutions have also changed radically since the time of de Tocqueville. Today, civic virtues are more likely to result from social bonds established through school, work, residence and even compulsory military service, than from membership in voluntary organizations or participating in local town meetings. This is so, quite simply, since today's citizens are much more involved in and spend much more time in the former type of social institutions than the latter (Newton, 1997; Newton, 1999). Moreover, today's citizens are to a greater or lesser degree dependent on the state and the services it produces for them, including education, highways and freeways, collective traffic, airports, railroads, water, sewage and trash collection, health care, electricity, etc.

## 2. SHIFTING POST-WAR PERSPECTIVES IN POLITICAL SCIENCE

The threads of these seminal 19<sup>th</sup> century writing about the importance of voluntary organizations can be clearly seen in the early works of the post-war pluralists like Truman (1951 & 1971), Kornhauser (1960), Dahl (1961), Lipset (1963), Coser (1956), Huntington (1968), and Almond & Verba (1963) who attributed great importance to the democratic functions of voluntary organizations in modern societies. Voluntary organizations were seen by pluralists as a buffer between the rulers and ruled that prevented direct access of either group to/by the other; something not found in the totalitarian societies of Eastern Europe, ruled by a single party. They were sometimes referred to as the 'glue that held society together', in spite of considerable economic, political and social cleavages in most pluralist polities. However, little empirical research existed on either side of the Atlantic to support such contentions. Thus, voluntary associations played an important role in early pluralism and at times the list of their virtues seemed unending. They provided pluralism with a more coherent,

competition-based and market-like alternative to the political philosophies of socialism or communism. However, decades later, after the end of the Cold War and the Fall of the Berlin Wall, we may again face the need to revise democratic theory and ideas about the role or functions of voluntary associations.

According to functional-structural theory in the 1960s and 1970s voluntary associations were supposed to articulate the needs and demands of citizens, while political parties were supposed to aggregate them. However, when reality deviates too far from theory it is necessary to change one or the other. Non-governmental organizations in many European countries pursued their political aims by other means, independent of the electoral channel of representation. Stein Rokkan (1966) suggested the existence of a corporate channel of influence in Scandinavia, and maintained that "[v]otes count in the choice of a government, but other resources decide which policies it will pursue" (*ibid.*).

Later, Schmitter (1974) and his colleagues pursued the study of neo-corporatism by focusing on business interest organizations in seven OECD countries during the 1970s and 1980s (Streeck & Schmitter, 1985; Streeck, *et al.*, 2005). More recently Putnam argued that civil society and social capital were positively related to both economic development and political effectiveness in his study of the growth of new regional democratic institutions in Italy and his comparison of northern and southern Italy (1993). In later works he laments the loss of civic virtues and social capital in the USA (2000). His writings have undeniably contributed to reviving a more general interest in the role of voluntary organizations in democratic societies. However, while perspectives on the relationship between the third sector and state may shift between various authors and approaches, there appears to be little awareness of fundamental changes in society that posit rethinking this relationship in democratic theory.

## 3. SCANDINAVIA STUDIES OF VOLUNTARY ASSOCIATIONS – CO-OPERATIVES AS THE "MIDDLE WAY"?

Strong parallels to the ideas of de Tocqueville can be found in the work of some scholars in Scandinavia who attributed similar functions to voluntary associations as did de Tocqueville. Ambjörnsson (1988 & 1995) notes the importance of unions, free churches and the temperance movement in mill-towns in Sweden in the late 1800s and early 1900s for the development of the labor movement and democracy. They taught the working class in

many mill-towns the basic skills of self-respect and self-discipline, how to read and write and how to organize union and lodge meetings and the importance of following democratic rules and regulations in their own decision-making. Several persons who graduated from this school of democracy later became prominent in local and even national politics after Sweden adopted universal suffrage in 1919/21 (*ibid.*).

However, concerning the ideas of the early pluralists on multiple memberships and cross-pressures promoting social and political stability, as already noted, little empirical research existed before the late 1970s on either side of the Atlantic to support such contentions. When it finally came it did so in the form of a comparative study of the Nordic democracies that showed voluntary organizations functioned quite differently in multi-party systems than in Anglo-Saxon two party democracies (Pestoff, 1977). This research showed that "party integrative associations", like trade unions, agricultural co-ops and even some religious and temperance organizations, reinforced their members' loyalties and integrated them into the political sub-culture of a specific political movement, while nevertheless contributing to political and social stability (*ibid.*). This also exposed the weakness of claims for universality by many early pluralists, since they ignored the local and national embeddedness of voluntary associations in Europe and Scandinavia.

Other authors highlight the role played by co-operatives during the turbulent decades before, during and after WW II. Childs' influential book, *Sweden: The Middle Way* (1936 & 1961), was set in the tumultuous years of the 1930s, against a backdrop of massive economic, political and social unrest in most of Europe. This was illustrated by the Soviet Revolution, the aftermath of the Great Depression throughout Europe, the rise of Nazism in Germany and Fascism in Italy, the Iberian Peninsula and elsewhere. Sweden and its Nordic neighbors appeared as an idyllic isolated region of social tranquility and everyday pragmatism, combined with economic and social progress. Childs attributed a major role to the Swedish co-operative movements in achieving this, in particular the consumer co-operatives, the agrarian co-operatives and the building and tenant co-operatives. They provided a pragmatic commercial alternative to the rampages of laissez-faire capitalism in the USA and to communism in the Soviet Union. However, nearly 50 years later he noted dramatic changes in many walks of Swedish society (Childs, 1980). Once again he called attention to the importance of the Swedish consumer co-operatives, but now only in terms

of promoting international development aid to third world co-operatives. Moreover, he expressed growing doubts about their contribution to domestic social and political compromise which seemed to vanish in the intervening years (*ibid.*).

The role played by co-operatives in Scandinavia today is marginal compared to their historic and, often heroic, roles prior to W.W. II. For example, at the beginning of the 20th century, the consumer co-ops played an important role in breaking the hold of local factory owners on the sale of daily goods in company shops, and even in breaking the production monopoly on basic staples, like margarine. However, growing urbanization, industrialization, economic integration and competition have diminished the importance of such goods for the well-being of ordinary citizens. Moreover, through a process of extensive amalgamations starting in the 1960s, the consumer co-ops grew into large bureaucratic organizations, well beyond the reach of ordinary members (Pestoff, 1991). The consumer co-operatives became even more commercially oriented in the 1990s and their economic, political and social role changed beyond recognition by the start of the new millennium.

Other popular movements associated with the Social Democrats in earlier periods, like the housing co-ops continue to play important economic and social roles for the well-being of their members, but their role also became overshadowed by the growing welfare state and large scale social changes. The two major building and tenant co-ops, HSB & Riksbbyggen, established in 1924 respectively in the early 1930s, played an important social role by building low-priced, good quality housing for working class inhabitants (Pestoff 1991). They contributed to resolving problems brought on by the major demographic changes and urbanization of Sweden and to the renewal of major urban areas in the 1960s & 1970s. They are democratically run by their members and have continued to expand and to provide high standard housing, but not always as low-priced as many young persons would like today. HSB not only supports a general tax-based welfare state; but, it has become engaged in the field of home care for the elderly in recent years. It also expressed concern about the future of the welfare state, due to increasing marketization of public services, and the threat this poses to co-operative alternatives (DN, 1/9-01).

## TYPES AND DRIVERS OF SOCIAL CHANGE

There are different types of social change. Wijkström and Zimmer (2011) propose a simple model of social change based on three components: (a) a set of drivers, (b) social processes in which these drivers facilitate change, and (c) the effects of these changes. They also identify three levels of social change that have an impact on civil society. They are comprised of: (i) changes that affect the space available for civil society relative to other types of organizations in society, (ii) changes in the balance between various forms of organizations as well as different types of operations within civil society, and (iii) changes with the frame of reference used for carrying out the day to day activities inside the organizations and the mental frames used to understand organizational work (*ibid.*).

It is impossible to discuss social change without considering the chicken-egg problem of which came first. Industrialization and urbanization belong to the usual explanations of social change, but they are often seen both as the cause and effect in a continuous, iterative process. These macro-level processes can both initiate change and be a manifestation of it. Moreover, they often serve as shorthand for even more sweeping social changes that remain below the surface. The latter includes, but is not limited to, several societal changes in recent decades and centuries. Note, however, that while they may appear as separate items in the list below, many of them overlap and can reinforce each other to a greater or lesser degree. We will begin with some more general developments or societal change and then turn to the regional or national developments or political change.

### 1. SOCIETAL CHANGE

First, we can note the gradual change from a society made up primarily of self-sufficient farmers, living in isolated agrarian societies that had little contact with or use for money to urban workers who became wage-earners in factories for 10 – 12 hours per day (Perrow, 2002). This eventually opened up for a new type of organization, namely trade unions to promote better working conditions and wages. Second, we find the gradual change from basically agricultural to industrial economies and then to service economies, particularly in terms of wage-employment in most modern societies. Today, two-thirds of the employees in most OECD countries work in the service sector. This should clearly im-

part the nature and development of the trade union movement. The Scandinavian countries have the highest rates of unionization in the world, including high degrees of unionization of white-collar workers and civil servants (Visser, 2006). Third, along with these developments, we also find the almost unabated growth in the GDP and standard of living of most citizens in most modern societies, together with the continual growth of inequality in many of them and all the social problems that follow in the wake of increasing inequality (Wilkinson & Pickett, 2009). However, inequalities and the grave social problems resulting from them are smallest in the Scandinavian welfare states and Japan, according to Wilkinson & Pickett (*ibid.*). This should reasonably impact the growth of organizations necessary to deal with the negative effects of inequality; i.e., both public and nonprofit organizations necessary to resolve social problems.

Fourth, to a varying degree, we can note the rapid growth of the welfare state after the end of WW II, along with an accompanying bureaucracy to provide public services (Esping-Andersen, 1990). Today citizens have become highly dependent on the goods and services provided by the public sector in most post-modern societies. Fifth, there is the growing globalization of the world economy and international trade (Hirst, & Thompson, 1996). However, several smaller European countries have traditionally been strongly involved in international trade, including the Scandinavian countries, so this is clearly not a new development for them (Katzenstein, 1986). Moreover, highly organized societies are uniquely prepared to meet the challenges of globalization (Olsen, 1990). Sixth, is the development of ‘organized society’, with its mega organizations on both sides of the public/private divide, that tend to overshadow many smaller civil society organizations and individual citizens (Hirst, 1994).

### 2. POLITICAL CHANGE

In addition, there are several regional and/or national developments worth mentioning. First, is the growth and development of new economic, political and social structures at the European level, through the processes of European integration. It started with six countries forming the Common Market, more than a decade after the end of WW II. They became twelve when several EFTA countries joined them, then fifteen and now the 28 member countries of the European Union (EU). This had a major impact on most economic, political and social developments, often in the name of standardization or harmonization of trade in the EU.

Second, as a manifestation of Hirst's observations (1994) about the growth of big organizations on both sides of the public/private divide, we can note a "big is beautiful" trend. It started with two waves of amalgamation of Swedish municipalities, first in the 1950s and then again in the 1970s. This resulted in a dramatic reduction in the number of municipalities and towns, from 2,500 at the end of W.W. II to merely 290 by the mid-1970s. It was motivated by the government's desire to create a sufficiently large economic, political and social base for the developing welfare state; but at the price of local democracy. Moreover, it was soon followed by similar developments in some popular movements, in particular the co-operative movements in the 1970s and 1980s. This is discussed in greater detail below. In addition, Sweden is well known for its big multinational companies, like Eriksson, Volvo, IKEA, Hennes & Mauritz, etc. In fact, Sweden has one of the highest concentrations of big multinational companies of any country in Europe (Pestoff, 2005). They help illustrate the rapid growth of mega organizations in the post WW II period in all sectors of society, public, private for-profit and the third sector.

Third, in the late 1980s the Social Democratic government de-regulated Swedish agricultural policy, thereby eliminating tariffs on imports and subsidies on exports of food stuff, as a first step toward Swedish membership in the European Union. This significantly weakened the agricultural co-operative movement that *de facto* implemented these significant financial transactions through their branch organizations. Fourth, there was a national process known as the de-corporatization of Swedish political institutions that replaced many democratic processes, at the national level, with liberal ones that were more in line with neighboring EU countries and with the growing influence of neo-liberalism across Europe.

This included fundamental changes in the way in which major reforms were reached and implemented in Sweden. The de-corporatization of the 1990s culminated with elimination of the last of the main manifestations of democratic corporatism (Heckscher, 1944; Rokkan, 1966) that attributed a central role to well-organized economic political and social interests, like the unions and employer organizations, the co-operative movements, etc. The three main corporatist institutions were comprised of parliamentary or governmental committees, the subsequent *remiss* process and lay representation on the boards of public administrative bodies. Parliamentary committees deliberated on and proposed major social reforms, but starting in

the 1980s fewer and fewer of them included representatives from the major social interests and more of them were comprised by a single appointed governmental official. The reports of such committees were then sent to a much larger number of social actors on *remiss* and their answers were collected and considered prior to proposing most major changes in the law. However, shorter *remiss* times made it difficult for democratically structured popular movements, like the unions and co-ops, to provide a *remiss* answer to proposed changes in the law.

Then, in 1990 the Confederation of Swedish Employers (SAF) proposed scrapping the system of lay representation on the boards of public administrative boards and the neo-liberal Bildt government quickly followed suit and removed all representatives of organized social interests, thereby replacing a democratic system with a more liberal one (Trägårdh, 2010). Today democratic corporatism has largely been replaced by lobbying. This sharply curtailed the input of an earlier generation of civil society organizations and popular movements in public policy making and implementation and in effect eliminated "... popular movement democracy or associative democracy", to borrow Hilding Johansson terminology (Johansson, 1955).

Fifth, in the early 1990s the same neo-liberal government eliminated most restrictions on public financing of alternative provided social services, including nonprofit and for-profit providers. This was tantamount to a de-regulation and de-monopolization of public services that led to the growth of alternative provision by "free" schools, co-operative childcare, private healthcare, eldercare, etc. Today, competition and contracting out are the key words in public service provision. While this initially opened some new space for the third sector provision, in the long run big private sector providers have been the primary beneficiaries from such de-regulation and de-monopolization. International venture capital firms now own and run four of the five largest "free school" concerns in Sweden.

## A DYNAMIC MODEL OF CO-OPERATIVE DEVELOPMENT

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The continued analysis will focus mainly on internal developments in the Swedish co-operative movements. The reasons for this are several. First, these developments reflect the impact of changing international and domestic pressures. Such changes reflect the loss of their previously held

privileged position, as part of a democratic corporatist system. Second, these changes clearly reflect the dilemma facing co-operatives as hybrid organizations. In order to be successful and survive, they must balance diverse, sometimes competing interests of their various stakeholders or environments where they operate. Third, the development of the Swedish co-operatives clearly expresses decisions made by their leaders. They may also reflect the exterior forces of the market and politics of a given country, but nevertheless they are internal decisions. Fourth, they can also express greater or lesser degrees of intelligent organizational design. Here I rely primarily on the dynamic model of co-operative development presented elsewhere in this volume. I will concentrate on two of its basic dimensions: the logic of competition and the logic of membership.

In this section I present 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 20<sup>th</sup> 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 organizations 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 organization 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 more closely.

The four most important environments for co-operatives as hybrid organizations in industrial and post-industrial societies are: the market, their members, their employees and the authorities. Together they comprise the most important 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, so it is 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.

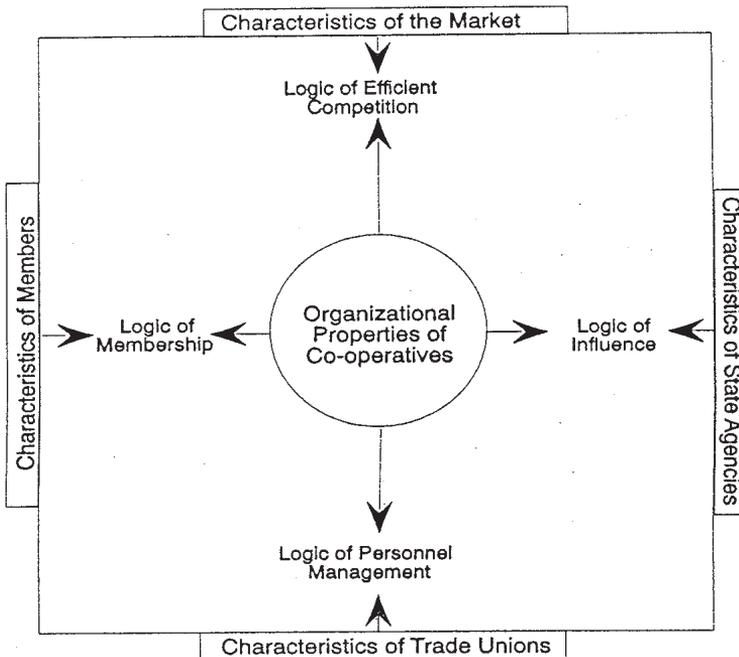


Figure 1 The Competing 'Logics' of Cooperative Associative Action  
 Source: V. Pestoff, 1991 & 1996.

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Both members and employees comprise the internal environment of co-operatives, as they are part of the organization; while markets and authorities comprise the external environment of co-operatives, since they are outside the organization 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 organizations, voluntary associations and third sector organizations.

Research on Swedish co-operative movements clearly shows that their social dimension helps to set them apart and make them different from their competitors. On the one hand, the active promotion of social values provides co-operatives with a clear profile, helps to distinguish them from their competitors and gives them a competitive advantage, if properly understood. On the other hand, the loss of social values denies co-ops a natural profile, makes it harder for members and consumers to distinguish between them and their competitors, and denies them a natural competitive advantage.

## 1. THE LOGIC OF COMPETITION OR AMALGAMATIONS AND CONCENTRATION?

As noted earlier, Sweden experienced a dramatic reorganization of its local democratic institutions in the 1950s and again in the 1970s that reduced the

number of local municipalities from approximately 2,500 in 1950 to 290 in 1980. This was done with the aim of creating the necessary demographic and financial base for expanding the welfare state, but it came at the price of local democracy. Moreover, it seems that certain popular movements, including some of the co-operatives, followed suit and adopted the logic of “big is beautiful” in their own organizations. The 1960s and 1970s saw some co-operative movements follow in the footsteps of the public sector by promoting larger local units, with more professional employees and fewer elected offices (Pestoff, 1979). This resulted in a dramatic reduction of the chance for ordinary members to gain an elective office, increased membership alienation and led to a sharp decline in membership participation and engagement in such organizations. Some of these organizations were closely allied with a major political party, like consumer and agricultural co-operative movements, with the Social Democrats and Center Parties respectively (*ibid.* and Pestoff, 1991).

I will compare the impact of amalgamations in general on some of the established co-operative movements in Sweden. While comprehensive data is not available for all years, it is available until the end of the 1970s for the building and tenant co-operatives (HSB), the consumer co-operatives (Konsum & KF), and one major branch of the producer co-operatives (SLR). Information from these three co-operative movements permits us to compare the impact of amalgamations in terms of their democratic structures. With the exception of the producer co-operatives, these organizations grew steadily in membership during the first seven or eight decades of the 20th Century. The building and tenant co-operatives, HSB, grew from 10,303 members in 1930 to 595,426 in 1988; while the consumer co-operatives grew from 74,000 members in 1910 to 2.1 million in 1990. The supply and marketing association (SLR) of the Swedish producer co-operative movement (LRF) experienced more fluctuation in its membership, due to the economic impact of the Great Depression and continually declining employment in agriculture. SLR had 84,726 members in 1920, 54,249 in 1950, 145,019 in 1960, 112,924 in 1977. By the year 2007 HSB decreased to 536,895 members, the consumer co-ops now claimed 3.1 million “members”, while SLR declined to only 42,000 members.

Amalgamations had a different impact on these popular 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. In the

other two Swedish 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 become 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 organization'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. The farmers' supply and co-operative marketing association (SLR) demonstrates a similar pattern of development in their democratic structures.

## 2. THE LOGIC OF MEMBERSHIP OR DISAPPEARING DEMOCRATIC STRUCTURES?

Comparing the development of the democratic structures in these three co-operative organizations they all grew in size, but some did so much more than others. Keep in mind that this is the same period of radical reorganization and growth in the average size of local governments in Sweden. Between 1950 and the end of the 1970s the size of the local democratic units grew in HSB from 54 to 86 members. Konsum & KF grew from 1,413 to 11,092 members; while SLR grew from 221 to more than 5,000 members. This implies that a member's chance of gaining an elective office or honorary post in any of these popular movements decreased in proportion to the growth in size of the local organization. By the end of this period, chances for members to gain an elective office were greatest in building and tenant co-ops and least 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. By the year 2007 the average number of members reached 138 for HSB, over 60,000 for the consumer co-ops and 1,680 for SLR<sup>1</sup>.

In addition, most co-operative movements also experienced a rapid growth in the number of employees. By 1977 there were two paid staff for every elected officer in SLR. This reflects a change in the balance of power between these two groups of leaders. The professionalization of such organizations is also related to questions of member influence and can be expressed in terms of a ratio of elected to paid leaders, or an index of democratic control. Furthermore, a separate study showed that both the ratio of elected officers to staff per 1,000 members decreased with increasing size for both the agricultural and consumer co-operatives, but not for the building and tenant co-operatives, due to the maintenance of local democratic structures by the latter (Dellenbrant & Pestoff, 1980). Thus, it seems possible to achieve a better economy without having to sacrifice membership democracy, as seen in the building and tenant co-ops.

Moreover, in the consumer co-ops member resolutions to the annual general meetings concerning matters like support for the international boycott of agricultural products from South Africa, international sympathy measures for purchasing union label products to support the struggle of the United Farm Workers (UFW) in California, removing men's magazines from the news racks or purchasing ecological products in order to promote sustainable agriculture were all resisted in the name of competition. The co-operative managers argued that the consumer co-ops had to offer the same products as their competitors, otherwise their members would shop elsewhere. Membership influence on such issues was also curtailed. Member resolutions could only be discussed in the local district where they were submitted, and no longer by interested members in neighboring districts at the co-ops' annual general meetings. In the early 1970s an article sent to the co-operative weekly journal, *Tidning Vi*; calling for international solidarity for the UFW's campaigns was rejected in the name of devoting space for a special issue on men's ties, but it was later published in a trade union journal. A letter to the editor discussing the future availability of the co-operative journal to members, when the annual rebate was eliminated by most local co-op societies in the late 1970s, merely resulted in strict new limits being placed on the length of a member's letters to the journal in the future.

<sup>1</sup> The lack of reliable information for SLR in 2007 makes this average less comparable with figures 30 years earlier.

### 3. THE LOGIC OF INFLUENCE OR CO-OPERATIVES AND POLICY-MAKING?

All three of the established Swedish co-operative movements played a central role in the development of the welfare state in their respective areas, agriculture policy, consumer policy and housing policy. However, the pioneer role of all three of these co-operative movements diminished over time, with changing circumstances and changing social forces, as will be seen below. The agricultural co-operatives and their branch organizations became the lynch-pin of Sweden's highly regulated agricultural policy between 1945 and 1990. Their dominance of the seven agricultural product regulation boards turned them into private interest governments (Streeck & Schmitter, 1985). The import and export of major agricultural commodities was closely regulated by them, they levied high import fees on all agricultural products imported to Sweden and heavily subsidized Swedish agricultural exports until the end of the 1980s, shortly before Sweden joined the European Union (Pestoff, 1991). The housing co-operatives played a central role in establishing Swedish housing policy and the massive modernization of housing stocks after the end of the War (*ibid.*).

Swedish consumer co-operatives also played an instrumental role in the development of Swedish consumer policy in the post-war period. Until it joined the EU, Sweden pursued an active consumer policy, in line with its much better known active labor market policy. The government played a central role in regulating many issues that were left to the market to "solve" in more market oriented or liberal countries. In doing so, Sweden attempted to develop a counter-vailing power to the well organized business interests of industry and the wholesale and retail sectors (Pestoff, 1984). It brought on board representatives of the two main trade unions, alongside the consumer co-operatives, as consumer representatives on most of the public agencies charged with regulating agricultural and consumer policy (*ibid.*). The consumer co-operatives were highly instrumental 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 in the consumer co-ops once again became crowded out; just as it did with the logic of efficient competition. In a competitive market the higher standards maintained by the co-operatives were once a comparative advantage that appealed to many families. They provided the

consumer co-operatives with a self-enforced floor that was often hard for their competitors to meet. Once codified, they could still claim to have set the standards for all Swedish consumers, but they also became very reluctant to provide anything more for their customers and members. When these standards became consumer laws and regulations, this one-time floor for the consumer co-operatives soon became a ceiling for all commerce, including the consumer co-operatives. In the name of competition, they became reluctant to make any consumer improvements not called for by law. They were unwilling to assume any additional costs of benefits not shared by their competitors. Over time consumers became aware of the loss of the co-operative role as a standard bearer for consumers, which also implied the loss of their competitive advantage. The local consumer co-operative gradually became just another shop in the eyes of many customers and members.

This brief overview shows that once the consumer co-ops achieved their consumer political aims the logic of (political) influence, in combination with the logic of (efficient) competition resulted in a leadership that was very reluctant to differ significantly from its competitors. 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 consumer co-operative leaders also acted to restrict the logic of membership, thereby curtailing member influence in the running of the consumer co-operatives during the 1970s and 1980s, in the name of competition. However, by failing to take advantage of their unique channels for members' input, once again they lost an important competitive advantage.

## CO-OP NORDEN – A MEGA AMALGAMATION IN THE 21<sup>ST</sup> CENTURY

### 1. THE FIRST 100 YEARS OF THE SWEDISH CONSUMER CO-OPERATIVE MOVEMENT

Today Sweden is light years from the situation when the Swedish consumer co-ops started providing goods for their members more than 100 years ago. In 1899, when the Swedish Co-operative Union & Wholesale Society (*Kooperativa Förbundet* or KF for short) was established, the consumer co-operative movement had a clear social profile. This profile included cash-only sales, unadulter-

ated products, breaking up production and/or sales monopolies, and democratic decision-making structures, almost two decades before Sweden adopted universal suffrage, etc. Table 1 in the Appendix 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.

At the beginning of the 20<sup>th</sup> 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 organized into nearly 400 local consumer co-operative societies, for an average size of less than 200 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 1,000,000 members in nearly 700 local societies, for an average size of nearly 1,500 members. They employed a total of 50,200 persons, and had over 8,000 shops. Forty years later, in 1990, membership reached over 2.1 million, but the number of local societies decreased to only 120, for an average of 17,500 members per society. The number of employees decreased radically when the consumer co-ops sold off their production capacity, declining from nearly 72,000 employees in 1980 to only 34,000 in 1990, while the number of shops decreased to only 1,687 the same year.

These developments had a detrimental impact on the democratic side of the Swedish co-operative movement and the logic of membership. This was clearly reflected in member participation at the annual general meetings of local co-operative societies, as well as the index of democratic control<sup>2</sup> (Pestoff, 1991). The growing size of local co-operative societies in major urban areas turned members into passive consumers, whose only expression of loyalty to the movement was reduced to purchasing most of their groceries at the local co-operative. However, passive members seldom show loyalty to a movement that has turned its back on them. Many members began to make their purchases at the closest grocery store rather than the closest co-operative shop. This in turn deteriorated the competitive position of the Swedish co-operative movement. These developments are interrelated or the opposite sides of a coin, that resulted in a downward or negative spiral of development.

Then, in 1991 a huge amalgamation resulted in completely new institutional structures, ones that ruptured ties with the majority of their members and replaced formal democratic structures with ordinary commercial relations. The new organization, called Coop Sweden, was a complicated conglomerate that owned the five biggest regional societies<sup>3</sup>, and they in turn owned the central organization, KF. 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. The business side of the “integrated societies” in Coop Sweden was completely severed from its membership organization, and members no longer had any influence, nor could they participate in running their regional co-operative society. This also resulted in very complex decision-making structures that few knowledgeable and well-informed persons can truly understand. Moreover, in the early 1990s Coop Sweden and its five regional members changed their legal status from economic associations to limited companies.

## 2. A MEGA AMALGAMATION IN THE 21<sup>ST</sup> CENTURY – CO-OP NORDEN

By 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. Also the number of employees had decreased further to about 27,000 and the number of shops decreased even more, to only 784, for an average of over 3,000 “members” per co-op shop. Ten years later, there were more than two million “members” in the five regional members of Coop Sweden together with one million in the 39 remaining local Konsum societies<sup>4</sup>. Thus, in the past 100 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 200 members to more than 70,000 in 2010. In the process,

<sup>3</sup> 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 2 million “members”, or more than three-fifths of the total 3 million “members” of KF (www.kf.se, 17 Aug., 2008).

<sup>4</sup> Members in these 46 local and regional societies retained their democratic rights of one member/one vote. However, only 4% of them attended the Annual General Meeting in 2007.

<sup>2</sup> The ratio or proportion of democratically elected officers to salaried staff.

the semi-independent small local co-operative societies that were the backbone of the movement in the late 19<sup>th</sup> and early 20<sup>th</sup> century<sup>5</sup> 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. Thus, it could be argued that Coop Sweden at the beginning of the 21<sup>st</sup> century comprised a unique organizational form, a “manager-run” co-op, without the bothersome influence of members, at least in the five big regional societies of Coop Sweden.

Finally, in 2001 the Danish, Norwegian and Swedish consumer co-operative movements decided to create *Coop Norden*, in order to protect their market shares in the respective Nordic countries against foreign competitors. The agricultural co-operative movement has also become “big business” and is now involved in a series of amalgamations in neighboring countries, thereby becoming an important actor in the European Union. SLR, the supply and marketing association of the Swedish producer co-operative movement, claimed employees in 19 countries in 2007. Thus, both these popular movements have 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.

The nature of the membership in the Swedish consumer co-operative movement has changed dramatically, from active to passive membership. In the 1960’s the Swedish consumer co-ops still required that members saved 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 all 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 most local consumer co-ops.

## CO-PRODUCTION AND ECONOMIC DEMOCRACY: A ROADMAP FOR THE FUTURE?

This section makes some proposals for addressing the loss of relevance of co-operative solutions in Scandinavian societies today. Quite simply they must find ways to make membership meaningful once again.

### 1. 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 involvement 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 labor 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 (Ostrom, 1999, Parks, et al. 1981 & 1999). The participation of citizens in the provision of welfare services through co-operative social services makes a unique contribution to democratic governance not found in either public services or private for-profit firms (Pestoff, 2008; Pestoff, 2009).

There are four kinds or dimensions of citizen participation in the provision of public-financed welfare services. They are economic, social, political and service-specific participation. In an interesting and important study, Johan Vamstad (2007) 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. It is clear that other forms for providing childcare allow parents a limited degree of 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 the childcare facility.

<sup>5</sup> 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 60 years later it claimed 372 members, from a total population of 497 inhabitants. In 2007 it remained an independent Konsum society, with 337 members. It continued to provide a dividend to its members in recent decades.

This form alone allows parents to become active co-producers of high quality childcare services for their own and others' children.

Vamstad (2007) also compared the influence of parents and staff in the same four types of service providers. Both the parents and the staff of parent as well as worker co-operatives claim they have more influence than those employed in municipal facilities or for-profit firms. Thus, one important conclusion from Vamstad's study is that neither the state nor the market allows for more than marginal or *ad hoc* participation or direct influence by parents in the childcare services. Although discussion groups or "Influence Councils" can be found at some municipal childcare facilities, but they only provide parents with very limited influence. More substantial participation in economic or political terms can only be achieved when parents organize themselves collectively to obtain better quality or different kinds of childcare services than either state or market solutions can provide. Moreover, worker co-operatives provide the staff with maximum influence, resulting in more democratic work places.

## 2. MULTI-STAKEHOLDER CO-OPS

A co-operative is a hybrid organization that often combines two functions or roles, where the owners contribute the finances as well as supply the raw materials, provide the necessary labor or purchase the firm's products. Such traditional co-operatives are single stakeholder firms. They are commonly found in agricultural producer co-ops, worker co-ops, consumer co-ops, building & tenant co-ops, etc. Here a single group of stakeholders provides most or all 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 it, and they have no voice in running it. They are therefore denied any influence in decision-making and have no claim to the eventual surplus produced. Thus, 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 various groups that contribute to the co-op's surplus, since they have no influence or ownership claim.

I maintain that democracy and the market could and should be more closely related, through intelligent organizational design. Here a multi-stakeholder model can provide an important concept, model and institution for understanding, developing and promoting democracy at the

micro-level in the daily lives of ordinary citizens, particularly in work-life. Co-operatives could make a unique contribution to enriching work-life and to renewing democracy. They could provide a good example and set the best practices, both in manufacturing and services.

A multi-stakeholder organization is a firm or co-op that legally recognizes more than one type of stakeholder, gives them representation in its decision-making structures and provides them with a share in the organization'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 organizations 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 40 hours per week for nearly 48 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.

## 3. 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 organizations can create trust in the absence of a non-distribution constraint or of American tax laws. Trust could

and should provide many organizations 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 three different forms in Sweden, i.e., consumer co-ops, worker co-ops and voluntary organizations. 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 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 organizations that combine both the staff and clients as members function as multi-stakeholder organizations and can also contribute greater trust between the consumers and producers of welfare services (Pestoff, 1998 & 2005).

Trust is the key to the future in business, in particular when it comes to social services. Private commercial firms, on the one hand, recognize 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 fail often to recognize trust as a natural competitive advantage of the co-operative form.

## CONCLUSIONS AND DISCUSSION: MAKING MEMBERSHIP MEANINGFUL

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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 theme of the report delivered at its 100 jubilee. It was given the title *Making Membership Meaningful* (ICA, 1995). All too often consumer co-operatives and other co-operative movements have done just the opposite, 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 the most meaningful to their members. 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 emphasize 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 21st Century.

The time has perhaps come in many post-industrial societies to ask whether consumer co-ops should perhaps consider selling off all or some 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. 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 Sweden and/or more sustained efforts by established co-operatives to provide basic social services for their members and all citizens.

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.

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## APPENDIX:

**Table 1** *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 Coop Sweden, who represent 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.



## CHAPTER 5

# SOCIAL ENTERPRISES



# SOCIAL STATE, WELFARE STATE AND THEN? WHERE TO MOVE FROM THE WELFARE STATE? A COOPERATIVE STATE OF SUSTAINABLE SOCIABILITY AS PERSPECTIVE FOR INNOVATION

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## INTRODUCTION

Various developments – some long-term developments, marking the development latest since WWII, some more medium-term since about the 1980 and some very short-term developments, since about 2008, the manifestation of a(nother) global economic crisis – can justify to speak of an increased need to take the current situation as crossroads for a fundamental political decision to be taken. Leaving the complexity for a moment aside, the present chapter draws attention to the need of rethinking the link between economic and welfare issues – their development and related policies.

But such statement is in some way misleading,

- \* limiting the relevant development by dating it back to about the middle of the last century rather than seeing its much longer history, going back to at least the emergence of capitalism;
- \* starting from presuming the social fabric and social policy as more or less static rather than underlining its fundamentally dynamic character;
- \* highlighting the periodical occurrence of restraints, retrenchment going in very similar directions but concealing the existing differences;
- \* and not least separating social policy thinking from its core, namely the thinking of the social in its entirety – in the true sense social policy is not simply about (re-)distribution of resources but about the mode of production and the hereupon based nexus between accumulation regime and mode of regulation.

This means not least that we have to look in a more differentiated way at the different systems, commonly dealt with under the term welfare state. At least some of the systematic meaning will be highlighted that is easily forgotten in more or less descriptive works of the recent decades and that is neither brought forward in works that are analytically limited on structural and institutional aspects of welfare provision rather than offering an analysis that is truly doing justice to an analysis of welfare capitalism.

## WELFARE CAPITALISM, CAPITALIST WELFARE OR WELFARE OF CAPITALISM

Gøsta Esping-Andersen, with his two works, the earlier on *Three Political Economies of the Welfare State* (Esping-Andersen, Gøsta, 1989: *The Three Political Economies of the Welfare State*; in: *Canadian Review of Sociology and Anthropology*; 26, 1: 10-36) and the latter on *Three Worlds of Welfare Capitalism* (Esping-Andersen, Gøsta, 1990: *The Three Worlds of Welfare Capitalism*; Princeton University Press) had been fortunate enough to influence, or even to shape the debate of much of social policy over the recent decades. However, a major shortcoming (for a more or less fundamental critique see Herrmann, Peter, 2011: *The Lifespan Perspective in Comparative Social Policy Research: a Critique of Gøsta Esping-Andersen's Model of Three Welfare States and its Implications for European Comparisons in Social Pedagogy*;

in: *Social Pedagogy for the Entire Lifespan, vol. I*; eds.: Kornbeck, Jacob/Rosendal Jensen, Niels; Bremen: *Europäische Hochschulschriften*, 2011: 29-49) lies in the fact of his principally affirmative approach, supposing the capitalist system as unquestionable and actually not asking for the deeper embeddedness of welfare in capitalism. Actually, the title of his work would have been better chosen if he would have talked about something like ‘three institutional answers on welfare in capitalist societies’ although this would have required a considered approach towards the definition of welfare which is currently in his work not detectable.

There are several standard explanations of the social and the welfare state – they can be classified along three dimensions. The one dimension is looking at if and how the social/welfare system is linked to capitalism. And the second dimension is concerned by the question if and how the social/welfare system is functional and affirmative within the overall process of capitalist (re-)production. Finally there is one – though rather marginalised

– dimension that is looking at the definition of the social, welfare and the role of different professional interpretations of substantial meaning (see for an overview Wedderburn, Dorothy, 1965: *Facts and Theories of the Welfare State*; in: *The Socialist Register*; volume 2; <http://socialistregister.com/index.php/srv/article/view/5952/2848-27/08/2011> 6:59 p.m.; Veith-Wilson, John, 2000: *States of Welfare: A Conceptual Challenge*; in: *Social Policy and Administration*; 34/1; Blackwell: Oxford/Malden: March: 1-25; Pierson, Christopher (ed.), 2000: *The Welfare State. A Reader*; Cambridge et al.: Polity; Alcock, Peter/Powell, Martin (eds.), 2011: *Welfare Theory and Development*; Thousand Oaks et al-tera: Sage).

Posing the question in a transverse way one may ask *How are the rights with respect to the overall system of the process of relational appropriation defined?* On two other occasions I elaborated this already. Once in a contribution with Claire Dorrity where we issued under the title *System and Rights* the following broad attribution.

**Overview 1:** Conceptualising rights

System Structure	Conceptualisation of Rights
Archaic societies	Conceptualising rights on the basis of divine ruling and natural law <sup>1</sup>
Feudalism	Conceptualising rights on the basis of divine and natural law
Industrial capitalism	Positive, contract law
Finance capitalism/neo-feudalism	Statute law

(Herrmann, Peter/Dorrity, Claire, 2009: Critique of Pure Individualism; in: Dorrity, Claire/Herrmann, Peter [eds.]: *Social Professional Activity – The Search for a Minimum Common Denominator in Difference*; New York: Nova Science: 1-27; here: 17)

On another occasion, in a work titled *Systems of Law and Social Quality* (Berman, Yitzhak/Herrmann, Peter, forthcoming: *Systems of Law and*

*Social Quality*; in: *Social & Public Policy Review*) we proposed the following attribution.

<sup>1</sup> Here not understood in accordance with legal theory but with the determination especially of agricultural production by nature.

**Overview 2:** Recognition – Reality – Regulation

Approach to Reality	Approach to Law
Immediate appropriation of nature	Spontaneous natural law – as law of nature ('environmental law')
Successive division of labour	Divine law
Successive division of control	Canon law <sup>2</sup>
Emergence of systems of communal production <sup>3</sup>	Common law
Heavily exchange based economies and societies emphasising the importance of 'civic-ness' as distinct area	Beginning with the Lex Duodecim Tabularum the Roman law and the later civil law
Prospected social quality society	Global Human Rights Approach

Whereas the one approach is more inspired by the idea of specifically shaped formations of productive systems, the second is more looking for the general relationality as matter of the process of appropriation.

Though in different ways, we are at present in both cases not looking at the legal dimension nor are we dealing with the wider system of the mode of regulation. Rather, at present these two references are useful to reflect on the development of the matter of 'social processes' and the way this allows us to handle the tension between increasing independence of social personalities and the regulation of the process of socialisation which itself is characterised by the tension of inclusion and exclusion. As such it is meant to open the social/welfare state debate beyond its traditional limitations, and seeing it as the broader matter of socialisation. This implies reference to the question of sustainability – understood not least as matter of mastering the presence.

**PRODUCTION – CAPITALIST PRODUCTION AS SPECIFIC FORM OF SOCIALISATION**

Of course, capitalism – defined by a very specific form of accumulation – is in its most important economic dimension characterised by the process of the privatisation of capital in the form of the means of production. However, this does not equal the individualisation of the process of production

itself. On the contrary, the privatisation of capital is the ultimate condition for an ongoing process of the socialisation of the process of production itself. At least the following dimensions are of central importance.

First, the subsequent process of concentration and centralisation means that an increasing number of workers is not in a position to work 'independently'. Any work is part of a complex process of production. The technical division of labour means at the same time a simultaneous specifically social division of labour and more over a social stratification of society – leading over the class division much further towards a differentiated pattern of strata.

Second, we find this complemented by socialisation in the form of workers being part of larger settings. In classical terms it had been physical enterprise, the plant as place of combined production; it is increasingly a matter of functional entities where physical presence is not necessary but functional interdependence not decreasing.

Third, to the extent to which production is increasingly a matter of separating the generation of use value and the generation of exchange value, we find another dimension of socialisation, namely the need to interact via the market. This is surely not only the case in capitalist societies. But it is very much multiplied by the market interaction being increasingly mediated – especially the emergence of finance capital, seemingly independent from the 'real economy', is advanced proof of this.

Fourth, international and 'global' dimensions of this process are increasing the distances but with this at the very same time the complex interdependencies are also escalating – and as such they have to be seen as another dimension of socialisation.

<sup>2</sup> Though in a wider understanding, as law of religious bodies/institutions

<sup>3</sup> Though well going hand in hand with a separation of power and control, thus including feudal and especially capitalist systems

## PRODUCTION – PRODUCING THE SOCIAL

Paradoxically this appears on the surface level very much as matter of individualisation. Because – be it capitalists or not – people are increasingly individualised: forced to act without knowing in anticipation. And the length of chains of (inter-)dependence is increasing. In very simple terms we see that this way the social as complex processual relationality is permanently produced in new ways. Important is that we are dealing with a qualitative change, shortly to be characterised as move from interaction to complex socialisation. As such it goes in parallel with the move from action to practice. And it is going beyond a simple and immediate metabolism between human being(s) and nature. Roughly we are now dealing with a the social being permanently (re-)produced as matter of relationality with roughly the four dimensions of

- \* auto-relation
- \* group-relation (as general sociability)
- \* ‘other’-relation (as ‘institutionalised and ‘defined’ sociability – including class relationships etc.) and
- \* environmental (‘organic nature’) relations.

Each of these four ‘dimensions’ has to be seen in connection with general social quality factors, namely the conditional, the constitutional and normative factors. The dimensions of relationality can be seen as points of reference for action and practice respectively.

However, as Lucien Sève points out, we find in the current reality that this secular move did not only come to a standstill but we face a reverse movement, i.e. the separation from practice and action, the latter reduced on making money: *Du coup les fins propres de ces activités tendent à être expulsées par la loi du fric.* (Sève, Lucien, 2011 [November]: *Sauver le genre humain, pas seulement la planète*; in: *Le Monde Diplomatique*: 22 f.)<sup>4</sup>

## PRODUCTION – INCLUSION AND EXCLUSION I: PROFITABILITY AS MATTER OF EXTERNALISATION OF COSTS

Differentiation as ‘functional differentiation’, i.e. the emergence of an economic system as partially distinct, separated entity in relation to other sub-

systems,<sup>5</sup> means not least specifically defining the ultimate code of the process. In this respect we may say that it is now about the money and price code. At present we do not have to go into details about the different dimensions of surplus value, profit, profit rate, turnover, organic composition of capital etc. although a closer analysis of the concrete mechanisms and its impact on the shape of the welfare system does require such differentiated analysis. However, at present it is only important to get fully aware of the fact that the ultimate aim of the game consists in lowering costs. Although there are different means of achieving this, one important moment is the externalisation of costs: employing any form of not paying for something that generates value which is part of the commodity itself or that is at any stage part of the value transaction chain. We are speaking of a wide-ranging field, reaching for instance from environmental costs, externalised by private companies, and subsequently covered by the state, costs for health care paid for by health insurance or family work as activities of (in particular) women contributing by unpaid labour to the immediate (re-)production and maintenance of labour power and also some kinds of voluntary work that secures the infrastructure needed for the accumulation of capital. Of course, in many cases it cannot be separated: Is there any activity of women that is not part of the process of (re-)production/maintenance? Rather than discussing this further (see in this context Haug, Frigga, 2008/2009<sup>2</sup>: *Die Vier-in-einem-Perspektive. Politik von Frauen für eine neue Linke; Hamburg: Argument Verlag; also: Herrmann, Peter, forthcoming: Four-in-One-Perspective – or One Divided by Four Equals One*), under the present heading only one remark should be added: wage push is not playing a primary role as this strategy is more aiming on changing the value itself rather than shifting the costs.<sup>6</sup>

## PRODUCTION – INCLUSION AND EXCLUSION II: PRODUCTIVITY AS INCLUSION OF VALUE

True, capitalist production is about production of exchange values rather than being concerned with the production of use value. However, it is clear that such exchange value depends on some (kind of) use value attached to the commodity or service. Via such processes inclusion and exclusion are spe-

<sup>4</sup> Sure, this deserves more elaboration as we find at least on the surface a similar orientation much earlier, reading Sophocles: *‘Money! Nothing worse in our lives, so current, rampant, so corrupting. Money – you demolish cities, rot men from their homes, you train and twist good minds and set them on to the most atrocious schemes. No limit, you make them adept at every kind of outrage, every godless crime – money.’*

<sup>5</sup> Employing the language of Niklas Luhmann, I am very aware of the limitations and problems of this approach.

<sup>6</sup> Although this is of course again more an analytical point than being a real one as at the end of the day somebody has to pay.

cifically defined. Most obvious is this the case when it comes to the socio-economic factors. The very obvious is about securing life in very basic terms. However, the less obvious is getting clear by looking at the ‘historical-moral factor’ determining the labour power and its reflection in the calculation of social benefits or the rules on the exemption from attachment of wages. In both cases, it is clearly spelled out what is considered as essential for life within a society and warranting a life in dignity.

### WELFARE OF CAPITALIST WORLDS OR WORLDS OF WELFARE CAPITALISM?

Important is in all these cases that we are implicitly or explicitly dealing with four different ‘productive

entities’, namely the individual enterprise; ‘society’, today usually in form of the state; the individual household; and the global/universal system within which metabolic processes are taking place. We may then say that we are dealing with a double-metabolism, the one concerning the relation between ‘humans’ and ‘nature’, the other as metabolism between individual’s enterprise of life (the ‘chosen individual biography’) and community/society as ‘embracing’ entity. Considering social policy as central point of interest of the present contribution, we have to consider two more moments, namely the fact that social groups and classes have to be positioned in this ‘net of actors’ and that the different actors are also acting globally in direct competition.

This allows us to draw the following perspectives as field of tensions within which finally power determines the concrete shape of social policy.

**Overview 3:** Channels of Cost Transfer

		<b>SOCIO-POLITICAL METABOLISM</b>		<b>Universal Metabolism</b>
		<b>MODE OF REPRODUCTION</b>		
<b>National Policy of Social Order</b>	STATE 1		NON-INSTITUTIONAL SOCIETY 2	
		Institutional Metabolism		
		CLASSES/STRATA		
		Social Metabolism		
	CORPORATE SECTOR 3		GLOBAL ECONOMY 4	
		<b>CORPORATE METABOLISM</b>		

The thesis behind this overview is that cost-transfer is – as power struggle, based on the interests of the different actors or arrays of society, namely CORPORATE ACTORS, THE NON-INSTITUTIONAL SOCIETY, STATE, and GLOBAL ECONOMY – is taking the form of different *metabolisms* which is carried out by the actors (CLASSES/STRATA/SOCIAL GROUPS ...), by using different **REGULATIVE FORMS**. At least for the present context we can define social policy – though understood as mechanism that employs a wide range of means and realises various sub-goals is determined by two orientations.

The one is about distribution of produced goods, the other is about the actual process of production, but here again understood as matter of the distribution in the following way. Useful is to start from Karl Marx elaboration on *The General Relations of Production of Distribution, Exchange and Consumption* in the *Grundrisse*. In the subparagraph on distribution and production he elaborates:

*To the single individual distribution naturally appears as a social law, which determines his position within [the system of] production in which he produces; distribution thus being antecedent to production. The individual starts out with neither capital nor landed property. He is dependent by birth on wage labour as a consequence of social distribution. But this dependence is itself the result of the existence of capital and landed property as independent agents of production.*

*(Marx, Karl, 1857/58: Economic Manuscripts of 1857-1858 (First Version of Capital); in: Karl Marx Frederick Engels. Collected Works. Volume 28: Karl Marx: 1857-61; London: Lawrence&Wishart, 1986:1-48; here: 33)*

And he continues little later, saying

*Conceived most superficially, distribution appears as the distribution of products, and thus further removed from production and quasi-independent of it. But before distribution becomes the distribution of products, it is (1) distribution of the instruments of production, and (2) (which is another determination of the same relation) distribution of the members of society among the various types of production (the submitting of individuals under definite relations of production). The distribution of products is obviously merely a result of this distribution, which is comprised in the production process itself and determines the structure of production.*  
*(ibid.: 33f.)*

Importantly for developing the present argument he concludes:

*The question as to how this form of distribution determining production itself relates to the production itself relates to production obviously belongs to [the sphere of] production itself.*

*(ibid.: 34)*

The present chapter will not provide a detailed analysis. But at least this important background may fulfil two functions.

The first is to make accessible the classification of different welfare/social states not simply as matter of distinct institutional and path-dependent patterns to the basically same structure – rather we can now see that different ‘welfare states’ are expression of the interlocking of the following background-patterns, differences determining a different ‘answer’ on welfare in capitalist economies (such formulation is more appropriate than the term ‘welfare capitalism’). We are concerned with (i) different historical stages of capitalist development on which the basis for the politics of social order had been established; (ii) the relevant accumulation regime of any country in question; (iii) the different statehood, i.e. the distinct role the state has in different countries; (iv) the international/global position. There is still some scope for path-dependency and institutional decisions in their own right. However, we find at the centre the determination by the specific economic order.

Second, taking the determinants and variables that had been mentioned earlier into account we are now also able to look for some new perspectives in welfare and social policy. – At the moment these considerations will explicitly not engage in the debate on need and possibilities of fundamental change and overcoming the capitalist formation although there are some strands for debate that are possibly emerging from here.

## **SOCIALISATION, INDIVIDUATION, PERSONALITY-BUILDING – ON THE ROLE OF THE WELFARE STATE**

Although the following is limited, only drawing with a broad brush attention especially to four main ‘welfare states’, and also neglecting by and large the contradictory character of the development, it may do suffice, considering the limitations of the common debate that capriciously – and misleadingly – confines itself to the realm of the one

welfare state only. Having all the limitations in mind, one can nevertheless draw a broad line of the common typology will be taken up,

- \* presenting the Bismarckian model, seen as *social state*,
- \* looking at what is commonly considered as social democratic model, here approached as Wigforss/Hansson-*welfare system*,
- \* drawing attention to the Beveridgian system as the *welfare state*
- \* and finally having a brief look at the notion of a *welfare society* as it is reflecting Asian systems.

In the following these different approaches will be outlined. It should be kept in mind that social policy or welfare systems are seen as matter going beyond the main gist that is discussed in social *policy* debates. We are dealing with systematic approaches to '*politics of social order*', being in a wide sense part of an extensive set of measures that is directly shaping the social fabric, being ultimately expression of a specific worldview and idea of man.

## THE SOCIAL STATE

Commonly the Bismarckian system is seen as the crèche of modern welfare intervention. On a very basic level this is surely correct. As much as we find with the enlightenment a shift towards the dominance of steering via the laws of the economic system – the shift towards a society that is considered as being ruled by the rational economic man (*homo oeconomicus*), we are subsequently confronted with two seemingly contradicting tendencies. On the one hand it is about the explicit subordination of social and welfare considerations under the aegis of the notion of 'economic thought'. This implies at least the following dimensions. First it is about *calculability* of welfare in terms of its linkage to the considerations of (short-term) profitability in monetary terms. Second it is about *predictability* of welfare in terms of embedding the calculation of entitlements as matter of conditionality that is formulated by using the terms of individual contracts.

On the other hand it had been about an approach of systematically counteracting the dysfunctions of the process of purely economically defined targets and relations – we may say: bringing politics back in. Leaving charity aside, the one reason behind it had been the concern with the requirement of the system itself: the need to secure a certain infrastructure, the need to regulate and control the externalisation of costs to secure that at least individual actors would not undermine the functioning of the entire system – looking at Over-

view 3 we are here concerned with the fields 1 and 4. The other main reason is linked to field 4 of the same Overview 3 and we can continue by using the general term of the pacification of the workers and in broader terms the regulation of the class relationships. It is interesting to highlight at least a few moments that clarify the meaning of the 'German way'.

*First*, capitalism and the then only newly unified nation state of the German Reich, still seeking economic and political identity are decisively shaping the search for meaning. Though parts of the new empire have been on their own already what we would call today 'global players' this cannot be seen as sufficient ground for maintaining such role for the entire empire. On the contrary, the new developmental stage meant major national challenges: on the one hand that Germany has to be considered as truly multi-national, multi-cultural entity as people from the various princedoms and regions did not easily fit together. For instance Juhani Laurinkari and Zoltán Tefner highlight two perspectives behind establishing the 'Bismarckian system'

*The model of Bismarckian social policy had not been established only as reaction on the threat of the societal integrity in Germany arising from the quantitatively increased working class. After 1871, the German chancellor had to approve the social opening on grounds of other reasons, based in domestic politics. He faced difficult task, being forced to combat the inner-German separatisms that stood against the national unification. However, if he aimed on completing the fight against national particularism as it came especially from the south of Germany he had to secure his position within other strata of society.*

*(Laurinkari, Juhani/Tefner, Zoltán (Eds.), in collaboration with Cser, Erika/Sárosi, Mária: Grundlinien der ungarischen Sozialpolitikgeschichte; forthcoming – quoted from the draft version January 9<sup>th</sup>, 2012: 43)*

*Second*, however, this political process had been not least an economic process of industrialisation and the establishment of a national centre-periphery relationship. This meant not least an increase of political tensions – actually it meant even in economic terms the opening of a new fundamental socio-economic contradiction. As far as nation-building is also a matter of claiming the existence of an economic entity and national cohesion,<sup>7</sup> it is

<sup>7</sup> For instance later reflected in the Equalisation Payments, defined in article 107.2.1. of the Basic Law of the FRG and nowadays on the EU-level by establishing the cohesion funds.

even more challenging if such a system is based on extreme regional differences: the 'corn-stores' of the eastern squires, the area of the 'coal and steel barons' of the Ruhr ..., and of course some 'industrial pockets' as for instance Berlin with Siemens&Halske as an early major player.

*Third*, the subsequent major urbanisation and demographic concentration meant the emergence of entirely new social challenges. Picking out only one of them we may mention the shift of family and economic patterns of subsistence changed. With some simplification and cynicism we may say that part of the family mutated from a 'service provider' (caring for the members of the family and being a mechanism of 'natural pension funds') to an meagre source of income (for instance by 'shift accommodation': people using their own accommodation themselves for one part of the day and letting it to others for some other part). But it had been also the emergence of the male-breadwinner household even if the purity of such model is frequently overestimated: women surely had to bear the major burden when it came to the bread baking; however this does not mean that they had been exempted from the breadwinning.

*Fourth*, this meant not least that poverty gained a new face as the terms and conditions of securing socio-economic security changed fundamentally. Where this had been up to hitherto a matter of dealing with the (un-)deserving poor, it had been changed now, being a matter of dealing with the prospective, actual, potential and previous labour market participants. Though it is true that the workhouses of the previous time had also been about enforcing compliance with duties, these duties had not been predominantly defined as matters of labour contracts.

All this culminated in the orientation of the social state, consisting of four pillars, namely

- \* the orientation on antisocialist measures, culminating in 1878 in the anti-socialist laws<sup>8</sup>
- \* the mobilisation of the public schooling system, in particular as means of general education ('Volksschulen')
- \* the need to answer the hardship (...) by establishing an organisation that secures for the worker the permanent maintenance of his possible right for support from some kind of funds in case of a change of residence. In addition there is the need to establish funds for invalidity and old age

(*ibid.*: 9)

<sup>8</sup> Gesetz gegen die gemeingefährlichen Bestrebungen der Sozialdemokratie – Law against the public danger of Social Democratic endeavours.

- \* the introduction of some forms of workers protection in the workplace

- \* and finally measures to combat homelessness though they had not been seen as issue for policies by the state

(see Lipinski, Richard, 1928: *Dokumente zum Sozialistengesetz*; Ed.: *Parteivorstand der Sozialdemokratischen Partei Deutschlands*).

It deserves some attention that Otto von Bismarck actually opposed the orientation on social measures (see *ibid.*: in particular: 12). Remarkably the 'social orientation' goes back on Graf Heinrich Friedrich August von Itzenplitz, minister for trade in the first cabinet of Bismarck. And as much as we can see in this time the roots for the authoritarian path we can also see the roots for the corporatist, corporative perspective. This is evidenced by the fact that Itzenplitz asked for state activities but at the same time emphasised:

*It cannot be recommended often enough to the entrepreneurs that it is firstly them who are called for and able to contribute to a conclusion of the pending battles, and the best way of doing this is by taking initiatives for their workers that go beyond their legal obligations, thus regaining the trust of the workers, and with this undermine the power of the unscrupulous agitators.*

(Itzenplitz, quoted in Lipinski: 7)

## THE WELFARE SYSTEM

Commonly we find the 'Swedish' or 'Nordic model' equalised with a social-democratic approach – and there are surely good reasons for such a view in particular if we look at the current shape. One moment that should let us even then hesitate to speak of a Nordic model is the fact that the Nordic countries are actually rather different – outstanding is the role of the cooperative sector in Finland. Another point is, however, that the conditions under which the system that is today called the Swedish model, are entirely different from those of today. This is surely also the case in assessing the previous 'model'. However, in the present case it is more severe as the translation of the original model into a pattern of a comparable system under today's conditions would end in an entirely different one as we find it nowadays in e.g. in Sweden. – This is the main reason to speak of the Wigforss/Hansson-welfare system rather than the social-democratic approach which will be briefly discussed in the following by referring mainly to the Swedish development.

A main issue has to be seen in the point of departure which is marked by two more or less outstanding features. The one is the position of the small and 'contested' country at the periphery of the global order – taking this in connection with climate conditions we see an industrially underdeveloped country. The export of iron and copper had been of some importance. It deserves mentioning that Sweden developed nevertheless a strong role in trading, being able to outlive for some time even the Hanseatic League. However, especially noteworthy is that at the same time 'classical feudalism' had not really been known. This allowed for developing on the one hand a hugely individualist orientation going hand in hand with the development of a kind of 'communitarian' or 'tribal' system of regulation within a society which had been characterised to a mentionable extent by its barter economy. Also important is the fact that Sweden's development is hugely influenced by adopting the reformation and establishing the state-church, the king being head of state and also head of church. The regulative and legal system have to be specifically characterised against this background, being marked by a peculiar tension. Patterns of a 'self-directed' law had been prevailing. Bodil Eriksson, with reference to Erling Sverdrup Sandmo (*Sandmo, Erling Sverdrup (2005): Æreskulturens fall og vekst; in: Johansson, Kenneth (ed.): Tusen år av hederskultur; Lund: Historiska media*), contends that

*[i]n early historical times it was common in the Scandinavian societies that conflict between families and conflict between individuals were brought to district-courts to be solved. It was not up to the families or individuals themselves to use violence against each other or to revenge oneself on somebody.  
(Eriksson, Bodil, forthcoming: Sweden. From an ethnic homogenous to a heterogeneous society; in: Nation state and Ethnic Diversity; Babacan, Hurryjet/Herrmann, Peter, forthcoming; New York: Nova – quoted from a draft)*

It is probably fair to say that such regulation is located between common law and civil law. – This still finds repercussions today in the fact that, though there is no *stare decisis*, we find nevertheless a strong role of the *Lagrådet* (Council on Legislation): its opinions are not legally binding but still have a major impact in the daily practice and are in this way and also by their character somewhat comparable with some form of precedent. In this context it is also relevant that codification started extremely early in comparison with other Europe-

an countries but never reached the coherence of for example the German Civil Code or the Code Civil des Français. This is of special interest as it hints on the strong role also of the state having in early modern times 'a monopoly on sentencing and punishment' (Eriksson, *op.cit.*). Another moment deserving mentioning is the huge role that administrative law plays. Without going into details, we can see some moments that are of major importance in the present context. These are the following: *first*, the importance of the 'community' and 'self-determination' also in terms of regulation; *second*, the tendency to identify 'community' and 'state', allowing for the emergence of a strong centralism; *third*, the strong ideological bond established by the church – being on the one hand strongly rooted in the locality and functioning on the other hand as centralist umbrella; *fourth*, a tendency to separate substantial and administrative aspects of the regulative aspects, taking the fact that on the one hand an elaborated codification does exist, on the other hand however we find it a major issue that is then fine-tuned by administrative law.

From here we may understand the emergence of the Swedish *Folkhemmet* (people's home) as a peculiar mix between (i) industrialist political orientation in a country that lagged behind in industrial development and (ii) communitarian regulation within a highly centralised system.

This can be taken as matrix for assessing some important elements of the Wigforss/Hansson-welfare system.

- \* We find here as well a strong orientation on social security, however it is very much based in the principle of in kind deliveries;
- \* this is complemented by a major role given to services within the overall system;
- \* Furthermore, there is still a major role taken by civil society – but different to other countries it is not primarily the role as service provider but more a matter of people's movement including a strong role they play as political pressure groups;
- \* the latter has to be qualified as there is also a hugely relevant service function these organisations maintain – one of the strongest kinds of this may be seen in the movement for national education – however, not only understood as matter of educating the people but also as education by the people.
- \* Underlying and also overarching is an important role of partnership by way of implanting

the idea of the *Folkhemmet* into various ways of life. This has to be seen as two-sided pattern, on the one hand allowing for a real partnership, on the other hand however allowing the establishment of a paternalist system.

\* Bringing then the different moments together we should also see that the actual situation – at least in the early years – is not correctly characterised as system of state-dominated welfare provision. Purely in quantitative terms this may even be true, but looking at qualitative issues we have to recognise that the understanding of the state itself is actually rather distinct.

## THE WELFARE STATE

Of course, it is difficult to draw strict divisions between the different patterns – this deserves special mention at this moment where we turn our attention to that system for which I reserve the term that is commonly employed as catch-all term: the welfare state. We take as special example the British system which is as welfare system very much state-based. This is true even if we compare it with the ‘Swedish model’. This assessment is not so much based on the quantitative aspects but going back on a more fundamental issue, namely the structural anchoring. Although there had been for a long time struggles and fights between the English, Scottish and Welsh (and the Irish, but this does not play a major role at present), there had been also a strong national identity. A strong feudal structure is surely one point in question; and another point is the location, namely the fact that being an island-nation caused some particular feature which forced and kept people together – for the good and for the worse. On the one hand it meant the orientation on some kind of self-sufficiency. On the other hand it seems to be exactly this enclosure that also caused an expansionist orientation which ‘left the country out of war’<sup>9</sup> and allowed this way to translate imperialism into a strong factor of identity building. The overall pattern is characterised by an internal strength, gained from a relative homogeneity, a successful paternalist integration and the said remoteness.<sup>10</sup>

The present thesis is that not least this background stood strongly in favour of the early development of industrialist capitalism. One aspect may be of interest in a side remark: the ‘ideological junc-

ture of pragmatism and moralism’ is an especially strong feature of the early ‘English’<sup>11</sup> political economy and finds its actual reflection in the trinity of ‘Manchester capitalism’: (i) the most fierce form of a system that worked according to the economic rules of capitalism (accumulation of capital, laws of value determination by the economic mechanisms of the process of production, determination of the value of the [re]production of labour power ...), (ii) nevertheless being strongly characterised by carrying on mechanisms of the pre-capitalist system of physical force and (iii) applying the principle of charity. Reformulated we are dealing with (i) the capitalist enterprise at the core, (ii) the open form of exploitation and also the workhouses and (iii) charitable work, including appeals to ‘corporate social responsibility’, at the time appearing as open paternalism.

An important factor that should be mentioned is that we find here as well a strong tradition of artisanship and craftsmanship which is distinct for instance from the relatively closed German guild-system. As an ‘open system’ it had been meaningful when it came to the proletarianisation on the one hand but on the other hand also as matter behind the emergence of an organised working class.

So we find at the very outset of social policy here on the one side the poor law not least with the thereby given meaning of the workhouses as complement to the strict working of the orders of the fabric system. On the other hand we find the Speenhamland system as first sign of state-based regulation. And furthermore we find a system of dissent: taking various forms, continuing ‘throughout the century to work for civil and religious liberties.’ (Thompson, Edward Palmer, 1964: *The Marking of the English Working Class*; New York: 1964: 27) Noteworthy it is the ambiguity, and with this the integrative moment of dissent.

*As Weber noted, the ‘basic atmosphere’ of the book is one in which ‘the after-life was not only more important, but in many ways also more certain, than all the interests of life in this world’. And this reminds us that faith in a life to come served not only as a consolidation to the poor but also as some emotional compensation for present sufferings and grievances. It was not only to imagine the ‘reward’ of the humble but also to enjoy some revenge upon their oppressors, by imagining their torments to come. Moreover, in stressing the positives in Bunyan’s imagery we have said little of the obvious negatives – the unction, the tempo-*

<sup>9</sup> At least in terms of major wars on the own territory, which would have effected the entire population.

<sup>10</sup> Such presentation should not give the wrong impression of social harmony – the same should actually be added to the earlier view on Sweden/the ‘Nordic model’.

<sup>11</sup> In inverted commas as it had been not least Scottish

*ral submissiveness, the egocentric pursuit of personal salvation – with which they are inseparably intermingled; and this ambivalence continues in the language of humble Nonconformity far into the 19<sup>th</sup> century.*  
(*ibid.*: 34)

It may be a brave suggestion seeing this also as part of the explanation why the cooperative sector is largely underdeveloped. The only really relevant representation of a cooperative sector can be found in the financial area (saving banks and credit unions) whereas we find here Owenism as a pattern that could at least for some time and in some areas gain some significance. Such hybrid system worked for a good while, undermining an approach towards the development of an overall strategic approach to the question of social security and welfare in a modern society. Pertaining feudalism as political backing of unadulterated capitalism in its basic form and cushioned by charitability undermined both, the development of a modern social policy and even the development of truly modern capitalism. The insular position, the control over huge external resources in form of the colonies and with this the opportunity for externalisation allowed to carry on in a rather ‘separatist policy’.

Although the development of the new system after WWII meant a fundamental shift and can be seen as somewhat externally-grounded, it can be said that the system had been at least also the continuation of a path of which the foundations had been laid down a long time ago. Two important moments for the present argument are concerning the role of the state: although national unity can be seen to some extent as naturally given by the fact of being an island nation, it has to be seen that socially it had been issue that needed permanent ‘maintenance’: on the one hand by some form of ‘oppression’, on the other the other hand by pertaining a paternalist system, with the royal house still playing at least formally an important role. Also the fact that in England the Supreme Governor of the Church of England is the royalty<sup>12</sup> underlines the importance of maintaining a national identity. The role of the central Royal House as instance of ‘formal power’ depended in England however on its ‘subsidiaries’: the system of the different ranks of nobility which still can be seen in many instances of the use of everyday’s language: ‘boroughs’ as administrative entities on district and some local authorities; the ‘landlord’ as owner of accommoda-

tion that is rented or leased to others for private or business use; the annual awarding of the membership in the *Most Excellent Order of the British Empire*, which is headed by the sovereign (currently Queen Elizabeth II) but of which the *Grand Master* is currently shiftily Prince Philip, Duke of Edinburgh. – Sure, in many other countries similar incidences can be found. Nevertheless it seems to have outstanding meaning in the present context. Paternalism undermined to some extent also the development not only of a strong and coherently organised political working class but also strong political governance mechanisms. It is important in this context to remind us of the fact that the juridical regulation is following the common law principle, even if at times we may today say it is broadly its spirit rather than its complete formal application. Taking all this together we find the following moments.

- \* An apparently ‘strong’ state, strong not in the sense of a highly centralised instance of power but as ‘caring instance’, continuously providing the background for transposing a clientelist approach into the now capitalist framework,
- \* which may well explain that we find at the core of discussions of the welfare state the National Health Service (NHS) rather than the payment of benefits.
- \* Also remarkable is then the close link that is established between benefit payments and labour market integration. Though the Blairite workfare orientation had been surely a qualitatively new step, we have to acknowledge that it had been not so much more than a consequent enforcement of the fundamental orientation as it is laid out from the outset.
- \* This is underlined by the fact that the public assistance programs are particularly rooted in charitability which is still meaningful today alongside with the public unemployment benefit system. Being ‘on the dole’ meant depending on what in particular the churches handed out to those who could not look after themselves. And indeed, depending on welfare officers brings together the dependency of people, the evocation of guilt and shame and the need of submissiveness.
- \* With this we find also a strong role of social and community work as part of the overall system, complementing other ‘services’ and not least being immediate part of the ‘dole-system’. Of course, the topics of the debates and policy changes had been very common. However, looking at England we find a development that

<sup>12</sup> Different in Wales with the *Eglwys yng Nghymru* – the Church in [mind: not of] Wales – and Scotland with the *Eglais Easbaigeach na h-Alba* – the Scottish Episcopal Church.

can be roughly characterised as emerging from more from the bottom in form of the patronising and merciful support, complemented by centralist oppressive control – the centralisation of the system is then developing from here. This stands for instance against the Elberfeld and Strasbourg system in Germany, developing the other way round: a highly decentralised bureaucratic system, first being decentralised and in a second step centralise again. This had to bear major implications: we find the ‘social-workalisation’ and ‘social-pedagogicalisation’ in the German system which started off as explicitly politically defined and defining system of social control. This stands against the English system where we find a pattern of interpenetration: the political dimension is primarily defined as one of political administration, legally complemented by common law and it is ‘enriched’ by social work, still leaving outside an understanding of social policy as we find it for instance in the coherently codified form in Germany.<sup>13</sup>

\* With all this we find a decisive difference also in terms of the entire fabric: surely idealised, we saw in the first case the orientation on state-induced social policy, in the second case communitarian-oriented welfare policy whereas we had been in the last case facing a state-induced welfare policy.

## THE WELFARE SOCIETY

Continuing from the remark at the end of the previous section, looking at the two dimensions of state-induction/communitarian-orientation and social/welfare concern, we will now come briefly to a pattern that is only recently catching some attention – and it is actually hugely problematic in its simplification (see Yasuhiro Kamimura, 2002: *Towards a Comparative Study of East Asian Welfare States; presentation to the 4th MDT Workshop, 24/7/2002*): frequently we find reference made to welfare society (see on the following as *informative background of general kind*: Peng, Ito/Wong, Joseph, 2010: *East Asia*; in: *The Oxford handbook of the welfare state / edited by Francis G. Castles, Stephan Leibfried, Jane Lewis, Herbert Obinger and Christopher Pierson; Oxford: Oxford University Press, 656-670*).

Probably the two most pertinent moments are the following. (i) First and foremost, we are here talking about a welfare society rather than a welfare state. This concept is based much more than others on the responsibility of society and the different actors in society rather than focussing on responsibility taken by the state. But also important is that the view is on the engagement of different actors in society rather than actors of society. Of course, this opens a wide field for debate – looking at the difference between countries but also considering the fact that we are now looking at some kind of ‘analytical ideal’, altered in reality by various factors. Nevertheless, the entire setting is geared towards integrity as focal point, giving also a special role to group-identities rather than emphasising the role of the individual. Of course, this may have especially from a Western perspective the negative notion of the ‘loss of individuality’. There may be some justification in such interpretation though it is equally valid to simply speak of a different approach, emphasising personality rather than individuality and seeing such personality as an element of and interwoven with a developing sociability rather than juxtaposing individuals and an alienated, seemingly independent, abstract social entity. (ii) This makes us moving on to the second point, looking at a specificity that may be broadly be classified as ideological dimension rather than the institutional perspective that had been looked at before: though contested, the ‘Asian model’ is frequently named Confucian welfare state. Drawing a picture with a very broad brush we may suggest that the contemporary Asian understanding of welfare activities is strongly emerging from and continuing the ancient roots. Although we see as well continuity, reaching especially from ancient Greek thoughts,<sup>14</sup> there is a marked substantial fissure emerging from the renaissance onwards. In a comparative perspective (and thus with the entailed simplification) we may say that the continuity featured in the West is characterised by the reinterpretation of Christian traditions in the light of the emerging capitalist system whereas in particular the Confucianism had been better in a position to influence the mode of capitalist structuration.<sup>15</sup> A major reason for this is a fundamentally different approach to the economy of this is taken in its widest sense. The West saw a major shift towards commodification – actually

<sup>14</sup> Perhaps paralysed during part of the medieval era or then at least completely perverted by the crusades still featuring

<sup>15</sup> Of course, this brings back to fore the entire debate which had been linked to the Protestant Ethics and the Marxian critique of prioritising ideology and politics in relation to the economy.

<sup>13</sup> Such a remark does not suggest any assessment and surely it does not want to suggest clear-cut patterns. In all these cases we are at the end dealing with tendencies, finding the realisation in hugely contradictory systems.

occurring within a historically relatively short period of time. The 'external divine power' had been somewhat internalised, best expressed by the tendency of fetishisation of commodities. This meant – perhaps appearing as paradox – the internalisation of separations: the separation of politics and economy, the separation of exchange and use value, the separation of individual and society, the separations between different policy areas and not least the separations between different actor and action spheres. On the other hand, economy seems to remain 'external' in the sense of being a means to an end. This means not least that the economy remains somewhat external whereas the internal dimension has to feature strongly two moments. First, to the extent to which the economic system is a means for society rather than the other way round the process of socialisation needs to look for another executive judiciary, one that is intern to the economic project and that nevertheless needs to be produced. Second, this requires and allows organising the ordering power by way of 'political' and even bureaucratic principles. In consequence, in particular the fission between societal 'segments'<sup>16</sup> and also between economic values and life-values. – As said, all this has to be read with major qualifications. And importantly we have to see these patterns in connection with the following major economic features:

- \* we are looking at economies that maintained for a very long time their agricultural foundation, in many cases in connection with an abundance of resources, not least a surplus population;
- \* this established a tension between a relatively high level of poverty – not only understood as poverty of individuals but also as poverty of societies (leaving aside a relatively small number of affluent, near-divine groups);
- \* all this can surely be seen as pattern predestining a family-based, subsistence oriented economy – this meant not least that the feudal structures took a different form, namely evading the establishment of patronage systems as they had been typical for the West;
- \* this specific and extreme detachment of a most superior class provided also the creation of an extreme affluence – but as affluence based on 'non-economic' power-positions it had been also an affluence that had been very much rooted in cultural refinement rather than utilising material resources for developing and showing

cultural refinement.<sup>17</sup> This may at least contribute as one building stone to explaining the major inventions as production of paper, printing techniques etc. originating particularly in China;

- \* furthermore it is important as partly explaining the ease with which industrialisation could take place as process continuing this tradition on the one hand by way of establishing large enterprises organised as 'larger families' (the typical and well-known feature in particular of Japanese enterprises). Although we find such familiarist, paternalist structures as well at earlier stages of the Western capitalism they play a more important role in Asia as they characterise the systems in question as central part of developed capitalism. The actually important feature, however, is that this familiarism can be seen as scaffold of the entire social fabric.

Looking from here at the entire system, talking of Confucian welfare states, welfares systems or an oikonomic welfare state (*on the latter in particular Jones, Catherine, 1990: Hong Kong, Singapore, South Korea and Taiwan: Oikonomic Welfare States; in: Government and Opposition; Volume 25, Issue 4, Article first published online: 27 APR 2007 - <http://onlinelibrary.wiley.com/doi/10.1111/j.1477-7053.1990.tb00396.x/pdf>; 17/01/2012 8:16 p.m.*), we can acknowledge the deeper impact. It is very much about an elite employing and integrating different mechanisms of hegemonial 'governance', characterised by Alfred Stepan as *Inclusionary Corporatism* (see Stepan, Alfred, 1978: *The State and Society. Peru in Comparative Perspective; Princeton/New Jersey: Princeton University Press: in particular 76f.*)

An important feature is consequentially the important role played by private actors – not by way of privatisation (as we find it currently by of privatisation) but by way of recurring from the outset to traditional patterns of the social fabric. Where the state acts it is first and foremost in the role as regulator rather than as provider (*cf. Jacobs, Didier, 1989: Social Welfare in East Asia: A Comparative Analysis Including Private Welfare; London: London School of Economics. Centre for Analysis of Social Exclusion. CASEpaper CASE 10 - <http://www.google>.*

<sup>16</sup> Mind, this is not about social divisions (class, stratification etc.)

<sup>17</sup> For the first we can refer to the various dynasties and for instance to the funerary art of the Quin Shi Hunag dynasty which served in a way also as archetype for later generations. For the second we may refer to the Fuggers and Medici and their 'investment in artefacts'.

*com/url?q=http://eprints.lse.ac.uk/6522/1/Social\_Welfare\_Systems\_in\_East\_Asia\_A\_Comparative\_Analysis\_including\_Private\_Welfare.pdf&sa=U&ei=X7QaT9D4M4m58gOeyfy\_Cw&ved=0CAQQFjAA&client=internal-uds-cse&usq=AFQjCNE8DYuh3SrLI3QVCsyNboGosvJ1Yw; 21/01/2012 12:51 p.m.).*

Perhaps more important and telling is the fact that this means that enterprises play a peculiar role, one may possibly compare it with the traditional systems of Western feudal systems and paternalist-parochial patterns: a duty to protection and care going hand in hand with control subordination by the enterprise and entrepreneur. The meaning of this may show pronounced evidence in the statement by a Japanese entrepreneur

*A factory owner who shows his employees the door because he can't find them work is as deserving of blame as an officer who loses his men in a battle.*

*(quoted in ibid: 73: from: Dore, Ronald/Bouinè-Cabale, Jean/Tapiola, Kari, 1989: Japan at Work: Markets, Management and Flexibility; Paris: Organisation for Economic Co-operation and Development)*

This is also reflected in the way of issuing politics: on the one hand, as said before, there is a strong if not even superior role of politics and a fusion of politics and economy, on the other hand however, it is exactly this pattern that makes it correct when Catherine Jones states that

*[s]uccessful government ... is government with least appearance of politics.*

*(Jones, op.cit.: 451)*

This is not least closely linked to the character of Confucianism – leaving the question aside to which extent it is really and literally followed it can be taken as given that it is not a religion nor in the strict sense a set of rules defining an administrative system. Rather it takes a mediate position between administrative order, ‘religion’ and thought of a ‘good life’ and ‘good behaviour’ and finally responsible governance. As such it is however a system of thinking in its own right. It provides in this way the foundation also for maintaining system that is to some extent resisting ‘full capitalisation’, i.e. finding its own way of capitalist mode of regulation. Rather that establishing a fully fledged capitalism and establishing on this basis a system of (cushioning, buffering, palliative ...) welfare provisions not least by way of decommodification we find in

the given cases a pattern that works the other way round: though capitalism is surely developing over a long time already, it is nevertheless very much coined by the fact that the commodification of the workforce is only occurring partly, closely interwoven with maintaining traditional structures. This goes hand in hand with the tradition of – manifestly or unintelligibly – withholding the status of citizen, seeing people as subjects (*for instance Jones, op.cit.: 450 f.*) and focusing on complex systems of roles and attributed responsibilities of behaviour and support (*see e.g. Herrmann, Peter, 2009: Social Quality – Looking for a Global Social Policy. Attempting an Approximation to the Analysis of Distances of Social Systems; Bremen: Europäischer Hochschulverlag, 2009; 179 ff.; Herrmann, Peter, 2009: Indicators – From Where, What Goal, Which Way; Aghabullogue/Cork: ESOSC/UCC [William Thompson Working Papers, 15]: 11 f.*). This implies not least that social problems or challenges are not primarily derived as matters in strict relationship with or derived from the commodified labour relationships but from the (dis-)functioning of ‘communities’.

This means also that social problems, inducements for ‘social interventions’ are in many cases based on the failure of actually responsible ‘communities’ and not directed to support the individual but more pronouncedly aiming on strengthening (again) their integrative resources and powers. This is also getting clear by the statement made in the contribution on Inequalities in Accessing Community Services in China

*Even though the overall aim of social service provision remains intact, serving the community in general came to be given equal importance as providing welfare services to the needy specifically.*

*(Lee, Kim-Ming/Fung, Kwok-Kin/Law, Kam-Yee/Yeung, Agnes, 2005: Inequalities in Accessing Community Services in China; in: Journal of Societal & Social Policy; Casa Verde; 51-62; here: 52)*

## CONCLUSION AND OUTLOOK – MOVING TOWARDS A FIFTH WAY: THE COOPERATIVE STATE ON SUSTAINABLE SOCIABILITY

Different conclusions can be drawn from here – and also various aspects do require further elaboration. At present only the following will be focussed on.

(i) Although there is a common European thread allowing to define some form of a European Social Model, we should not underestimate the differences within the group of European countries. And also we should not overestimate the difference to non-European systems in their occurrence and shape today though we surely have to remain aware of the different historical backgrounds and pathways. It is necessary in future research to distinguish more clearly between the secular developments and the commonalities as they are developed as part of the general capitalisation of the world's economies. Karl Marx and Frederick Engels stated already in 1848 in the Communist Manifesto

*The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to the production and consumption in every country. .... The old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the productions of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. ... In one word, it creates a world after its own image.*

*(Marx, Karl/Engels, Frederick, 1847/1848: Manifesto of the Communist Party; in: Karl Marx. Frederick Engels. Collected Works. Vol. 6: Marx and Engels.: 1845-48; London: Lawrence&Wishart; 1976; 477-517; here: 488)*

Leaving this 'homogenisation' aside we find nevertheless major differences between countries and regions.

(ii) The thesis of the present contribution is that these differences – set as path dependency – are in particular based in how specifically the kick-off

point is defined, i.e. at which point in the development we see the emergence of regulative mechanisms that are concerned with the social. So, rather than taking an institutionalist perspective, starting from a basic understanding of welfare provision, it is proposed to take a wider and functionalist approach. The centre of it is the concern with the general gist of socialisation. (α) On the very basic level this is seen as matter of processes of relational appropriation. (β) More specifically we are dealing with the social, defined as the outcome of the interaction between people (constituted as actors) and their constructed and natural environment. With this in mind its subject matter refers to people's productive and reproductive relationships. (γ) This means by way of further specification that any approach to the 'welfare state' has to be meaningfully developed as matter of a socio-political-economic setting which can link into proposals which had been developed elsewhere (see e.g. Herrmann, Peter, 2009: *Social Quality - Looking for a Global Social Policy. Attempting an Approximation to the Analysis of Distances of Social Systems; Bremen: Europäischer Hochschulverlag: 44 f.*). These are understood as extended version of the theory of regulation, drawing attention to the quadruple of accumulation regime, mode of regulation, life regime and mode of life. (δ) It is only at this stage that we can look at 'welfare arrangements' – but even here the point of departure is different to that of mainstream discussions of the welfare state. Linking back to the first point, namely the orientation on 'processes of relational appropriation' the proposal is to grasp 'welfare arrangements' as matter of aiming on sustainable sociability. This means focussing on the one hand on socialisation and on the other hand on the fact that this process has to be understood in the context of its metabolic character.

(iii) Seeing the economic development – and more particularly the cyclical development of the productive forces with the fundamental impact on the overall mode of life – as specific reifications (and condensations) of the secular metabolism a useful framework can be taken from the Kontrativ waves and the respective shifts. It is important, however, to link this to a proper understanding of the accumulation regimes as we can take it from a contribution by Alain Lipietz who defines

*the regime of accumulation [as] stabilization over a long period of the allocation of the net product between consumption and accumulation' which 'implies some correspondence between the transformation of both the conditions of production and the conditions of the reproduction of wage earners.'*

(Lipietz, Alain, 1986: *New Tendencies in the International Division of Labor: Regimes of Accumulation and Modes of Regulation*; in: Scott/Allen J./Storper, Michael [eds.]: *Production, Work, Territory. The Geographical Anatomy of Industrial Capitalism*; Boston/London/Sidney: Allen&Unwin: 16-40; here: 19)

– Taken seriously it also allows us to move the concept beyond its original focus, oriented on the analysis of developed capitalism.<sup>18</sup> We are looking in a more varied way at capitalism (see Hall, Peter A./Soskice, David, 2001: *An Introduction to Varieties of Capitalism*, in: Hall, Peter A./Soskice, David, 2001 [eds.]: *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*; Oxford: Oxford University Press [reprinted 2010]: 1-68, offering some original insights in how different institutional and organisational perspectives can be employed) and we are also going beyond the narrow understanding of capitalism as proposed by Joseph A. Schumpeter, who saw capitalism as

*that form of private property economy in which innovations are carried out by means of borrowed money, which in general, though not by logical necessity, implies credit creation.*

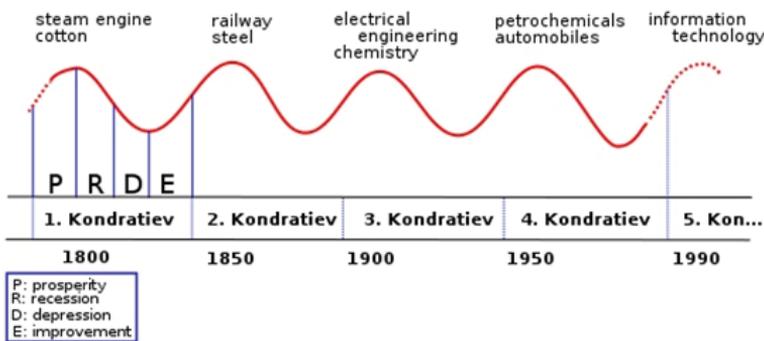
(Schumpeter, Joseph A., (1939): *Business Cycles. A Theoretical, Historical, and Statistical Analysis of the Capitalist Process*; vol. I; Philadelphia: Porcupine, 1982: 223)<sup>19</sup>

Of course, this definition is highly problematic. And in actual fact Schumpeter is himself contradictory on this matter as he draws in the later elaborations close attention on the development of production leaving the aspect of financing – this in terms of the sphere of circulation – behind. It is this aspect that is of interest for the present argument: the presentation of certain long waves of production – or to use the term proposed by Nikolai D Kondratiev: *bol'shie tsikly*, to be translated to 'major cycles'. We can take the overcoming of the agriculturally based economy and subsequent industrialisation as major and most fundamental cycle. Schumpeter states in this context:

*Now is this industrialization (with its agrarian complement) more than anything else that transformed the England of the Tudors and Stuarts through the change it wrought in production functions. The argument from comparatively small quantitative importance of innovation fails because it visualizes 'inventions' only, and neglects a wide class of activities which, if included as they ought to be, were not unimportant relatively to the environment. (ibid.: 243)*

<sup>18</sup> Looking at the work by Michael Aglietta (*Aglietta, Michel, 1976: A Theory of Capitalist Regulation*; London: Verso), which stood at the crèche of the approach, we can clearly see the limitation which then turned into a reduced use of the concept, only focusing on the analysis of Fordist and post-Fordist systems.

<sup>19</sup> See in this context not least the debate on the understanding of capitalism in the framework of world systems theory as presented in Frank, Andre Gunder/Gills, Barry K. (eds.) 1993: *The World System. Five Hundred Years or Five Thousand?*; London/New York: Routledge



An overview over the development is given in the following graph – sufficient for the present argument.

*(Kondratievwave; Source: <http://en.wikipedia.org/w/index.php?oldid=473591448> Contributors: Aardwolf, Andres, Andycjp, Arwen III., AtheWeatherman, Axezz, Bcat, Bender235, BigND, Billj, Bluemoose, Brauntonian, Breadandroses, Chancery21, Charles Matthews, Clossius, Coachaxis, Colonies Chris, Conversion script, Datasmid, Daytona2, Dccccdccc, Derek Ross, Don4of4, Dpwkbw, Dzordzm, Edward Lewis1, Foreverprovidence, Franz weber, GlebX, Graciagoldberg, GregorB, Ground Zero, H@r@d, Helvetius, Heroeswithmetaphors, Hhmb, Hmains, HorsePunchKid, Hu12, Hypnosjfl, Ibn khaldun 84, J.harrington12, JDvzs, JaGa, Jack Upland, Jerryobject, John Quiggin, Juanita09, Jurriaan, Kenneth M Burke, Leutha, Mandarax, Markeilz, Mattiafoc, Meotrangden, Michael Hardy, Mild Bill Hiccup, Miss Madeline, Msh210, Mutamarrid, Netrat, Nikai, Nirvana2013, Oliver Pereira, Olivier, Pahpaha, Pearle, Phanerozoic, Philip Sutton, Phmoreno, Pjmpjm, Polusfx, Qsf, Rago, RayBirks, RayTomes, Resprinter123, Rich Farmbrough, Rursus, Rusnak1961, SergeyKurdakov, Smallbones, Solphusion, Stefeyboy, Tabletop, The Anome, Thedarkestclear, Theoh, Thunderbird, Tim Shuba, TimNelson, Tjmayerinsf, Tomas e, Vberger, Whaiain, WikHead, Will Beback Auto, Woohookitty, Ziggaroo, 222 anonymous edits; 28/01/2012 4:56 p.m.)*

Whereas Schumpeter sees at the end innovation as driving force for the development, the current task is to analyse this development as matter shift of the productive forces, seeing it as such not least also as major line along which social conflicts, i.e. conflicts of 'societal integrity' develop (*see for instance Schumpeter; op.cit.: 243; Tylecote, Andrew: Politics, Technology and Economics: Kondratiev's Endogenous Theory of Long Waves; in: Makasheva, Natalia/Samuels, Warren J./Barnett, Vincent, 1998: The Works of Nikolai D. Kondratiev. Vol. 1. Economic Statics, Dynamics and Conjuncture; London: Pickering&Chatto: lxxi-lxxxiii; here: lxxii ff.*)

We arrive of course at the point where changes in 'social policy' come to the fore: on the one hand by way of occurring soci(et)al disintegration due to the development of the entire social fabric, on the other hand as matter of emerging new 'possibilities'. Such major waves of developing societal

integrity are surely not mechanically mirroring the economic development and the change of institutional mechanisms in this realm surely would only occur with a certain time delay. However, there is sufficient reason for following a research path of this way: aiming on detecting different worlds of welfare capitalism as matter of detecting the different worlds of capitalism first rather than starting from the superstructure of institutional and political stances.

(iii) Looking for a way forward requires not least that the need to explicitly return to the analysis of capitalism and the fundamental determination of value. Three moments are important for the current context: (α) focussing on the functioning of the law of value as matter of production rather than allowing a distraction by stating that value is generated on the level of exchange; (β) the proper definition of value, not least as 'social value' which means that it has to be defined in the context of socialisation, in need of not allowing externalisation of costs (γ) focussing on the production of the social not least with the two legs: the process of production as social process and the social process as productive process.

It means not least to return to a fundamental critique of the bourgeois political economy, pleading for a more fundamental shift. Most of the current debates especially on social policy criticise in particular 'neo-liberalism', claiming a more just distribution. As such they aim on changing market mechanisms and the related mechanisms of steering quantities. Particularly, influencing the distributive function of markets and aiming on influencing prices are suggested as instrumental. However, these mechanisms can be accepted as mechanisms of temporarily effective, however lacking a fundamental role: answering the qualitative needs of production of which the social character is not primarily steered by the market but by intervention into the processes of production. This shows also the limitation of Keynesian orientations that remain caught in the fallacy of seeing quantitative growth as means solving the qualitative challenges of the social itself. In particular if we accept the need of the wider approach towards economy as socio-political process within an environment we have to accept not least that such quantitative growth strategy is not least founded in the premises of externalising (temporarily, regionally, socially ...) costs. In actual fact, produced value then needs to be calculated by subtracting the costs that are externalised – externalised in private terms, terms of the individual enterprise, a region or country or as well by shifts across industries/sectors.

It is now time to look at the Cooperative State on Sustainable Sociability or Co-Operative Social-Quality State. It is not suggested that this is a final stage of the development of the 'welfare state' nor is suggested that it is a(nother) third way, let alone that it is seen even as immediate contribution to the question of socialism and a socialist revolution.

The orientation here is purely one of a 'partial shift' of the existing capitalist system, (i) moving towards acknowledging production as ultimate core of generating value, (ii) not accepting the commodity form as sole or even central moment of value, (iii) though not shifting the valuation to subjective social standards but as economically derived assessment of the *bonum commune* (see in this context the elaborations of the French encyclopaedists, e.g. Claude Adrien H elvetius and Paul Thiry d'Holbach) but (iv) not principally changing the relations of property. The outlook is based on the previous analysis in two ways: First, it links to the limitations of the four historically most relevant answers and second it is conclusive in the sense of an extrapolation of existing trends as they emerge from the development of the productive forces and their translation into the development of the accumulation regime. As usual when looking at issues like this we are not dealing with an automatic development. Rather, as political process it is surely not least a matter that requires political action and which has to deal with individual and collective resistance and also with general 'inertia' of the existing political economy.

The foundation of the following is the concurrence of the general crisis of the 'welfare state' and of the capitalist mode of production even if only assessed against its own standards.

- \* The 'welfare state' produces permanent undercapacities. These are not simply a matter of a lack of resources coming from outside but also a matter of internal dysfunctions based on the separation between production and circulation. In other words, dealing mainly with challenges arising from production, it is located in the sphere of circulation.
- \* At the same time we see overcapacities of the welfare system though the term is surely misleading. On the one hand this refers to social injustice as for instance very good private health services going along with extreme under-supply of general services. Two other examples show clearly the wasteful effects of this: the production of an exponentially increasing performance of computers of which only a fraction is actually used by the ordinary user – nevertheless not stopping providers to push each other's button, inventing 'better processors' for

more complex software, requiring faster processors which encourage the invention of more complex software ... – at the end probably leaving the percentage of 'wasted resources' more or less unchanged, only marginally shifting between subunits.

- \* The economic system is permanently producing overcapacities in two respects. The one is an environmental overkill capacity, i.e. it produces so much 'waste' (including emissions as CO<sub>2</sub>) that it is not only fatal for individuals and groups but undermining the capacities of the system to reproduce itself.
- \* The other is an under-capacity of (social) action and practice. Both, individuals, social groups/classes and societies, often being hyperactive, obviously lost the power to develop strategic practice. If we link this point as interference of commodity production and a definition of commodities that sees them as means 'establishing and enacting people's and societal well-being', it is getting obvious that we face a situation that is extremely Pareto-suboptimal.

All these four moments are a matter of restrained socialisation. At the same time we can acknowledge four moments that are inherent in the current socio-political economy, systematically working towards a 'solution' for these restraints. These can be outlined as follows.

- \* Various calculations show clearly that sufficient resources are available – be it nationally or internationally – allowing us to live life according to needs. These resources are of material character, concerning socio-economic security and equally logistics, energy and needed raw materials for sustaining existence.
- \* Knowledge allows us a distribution that is 'just' and fulfilling the criteria of equity. One important aspect concerns about logistics, allowing elaborating mechanisms of distribution that go much beyond traditional Pareto-efficiency, by including an original and strategic social dimension into the equation.
- \* Another important aspect is about the factually increasing sociality of resources, knowledge and production. Though taking the form of highly individualist patterns (e.g. just-in-time-production, made-to-order, contract law), all these are only possible due to processes of socialisation working in the background.
- \* Important is also that in fact people are increasingly and consciously acting in social ways. Importantly this has to be seen in context with the fact that we are nowadays rarely forced to 'immediate action'. The pressure of immedi-

ate action is surely still given in many regions of the world – for instance natural disasters have to be mentioned and also famines cannot be ignored. Nevertheless, if we look at it in a global and historical perspective and from the standpoint of humanity, there is no pressure of such kind that does not allow developing strategic approaches.<sup>20</sup>

It is of utmost importance that we can make out different pushes supporting these features, each allowing a further move not towards an ‘increase in welfare’ but more importantly: a move (i) in respect of defining welfare in a new way and (ii) in terms of its organization.

It is in this light that the current contribution draws attention to a possible new stage: The Cooperative State on Sustainable Sociability. Saying it is a possible stage, explicitly expresses that other scenarios do exist and it also means that within the scenario of such Cooperative State on Sustainable Sociability a bandwidth exists, opening for various options for the concrete shape. These will surely also depend on national traditions. The following is an outline of a general shift with the following moments in the centre.

*First*, it is increasingly obvious that production is moving towards the centre of ‘social policy’ – and in this case it is not primarily about the (re-)production of the workforce, especially dealing with those cases where the individual is delinked from the labour market (in particular unemployment, illness, disability, retirement). Rather, we are now dealing with an entirely different situation, characterised by blurring or even invalidation of borders between labour, re-production and leisure. Deregulation is, of course, one of the central moments in this context. This is important not only by way of negative consequences on the material situation (as socio-economic security) but moreover it is a major issue when it comes to the issue of the power, i.e. control over the social life situation. And in this context another matter plays a major role, namely the shift of borders also on the side of production. Diversification of business – by way of centralisation of capital – also means the blurring of borders within the process of production: the distinction between manufacturing/construction, productive consumption, distribution and exchange are at least blurring – and so are the separations between different spheres of life. Well-known examples are the moves of supermarket chains to all-round

providers of everything.<sup>21</sup> And not less well-known examples are the moves of consumers to act as ‘co-producers’, working as travel agents while booking flights and train journeys, working as cashiers at the automated checkout, working as craftsperson when assembling furniture etc.

*Second*, this means also that the borders between private and public sphere and those between the individual and the social are blurred. Moreover, we can even go a step further, saying that with this even the meaning of private, public, individual and social change rather fundamentally.

*Third*, the question of general interest gains a new perspective, (a) by making the aspect of relationality explicit and (b) making it necessary to explicitly consider the four dimensions of relationality.<sup>22</sup> An important aspect is the emergence of a contradiction of the character of time. On the one hand, the explicit reference to rationality means not least that time gains a new meaning insofar as it has to be made explicitly part of considerations in its meaning of *longue durée*.<sup>23</sup> However, at the very same instance, the consideration of time is meaningful not as matter of historical consciousness but as part the immediate practice: *histoire événementielle* is emerging as immediately interwoven with and welding with *longue durée* and vice versa. In this light – paradoxically – sustainability is emerging as immediate issue for accommodating life in the presence, and accommodating presence in life.<sup>24</sup>

From here the notion of a The Cooperative State on Sustainable Sociability probably does not need much explanation – at least if we see it as point of departure for a new framework for research, focused on the role of the cooperative sector not as instrument of supporting integration of marginalised groups and individuals but as matter of bringing political economy centre stage.

<sup>20</sup> This is not meant to say the

<sup>21</sup> Here it does not play a role that this goes hand in hand – and moreover depends on the increasing exploitation of sub-contractors etc.

<sup>22</sup> these had been presented as auto-relation, relation to others on a personal level, relation to other groups/classes, relation to the organic environment

<sup>23</sup> Understood quite in line with the work presented by the École des Annales

<sup>24</sup> So far this needs to be further elaborated. The thought goes back to an (as usual) interesting private conversation with Hans F. Zacher in January 2012

# STATE OF SOCIAL ECONOMY AND SOCIAL ENTERPRISE CONCEPT IN FINLAND

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**Keywords:** social economy, social enterprise, welfare services, work integration, diffusion of innovation

## INTRODUCTION

The aim of the research is to describe and analyse the evolution of social enterprise concept in Finland and further develop it. Our research draws better insight of size and meaning of different forms of social enterprises in Finland and helps us to understand better the role of different programs e.g. ESF in developing new initiatives, consequences of these types of financing and possible pros, cons and limitation of these programs.

In the first chapter established forms of traditional social enterprises of social economy and their role in the making of welfare state in Finland are described. Second, we discuss the major changes in the welfare state's operational environment and third, the evolution of new forms of social enterprises as a part of renewal of the welfare state. Fourth, the size and characteristic of Finnish social enterprises are identified. Finally, factors that could enable and support the development of social enterprises are commented.

The research methods include content analysis of recent research and other relevant literature e.g. official reports and programme documents, but also data on different segments of established social enterprises.

The results of this study help us understand and identify the key challenges social enterprises are facing in their pursuit to deliver welfare services and work integration and to provide guidelines in developing social economy sector.

## SOCIAL ECONOMY IN THE MAKING OF WELFARE STATE IN FINLAND

In Finland, the traditional expression of social enterprises, organisations of social economy, has been strong. Social economy covers co-operatives, mutual societies, associations and foundations practicing economic activities. They all share the following goals: 1) independence from the state, 2) based on people – not on capital and the principle one member – one vote, 3) the activities have even other than economic goals (Defourny & Delvetere 1999, 16; Pättiniemi 2007, 95).

The activities of the Finnish social enterprises fit the definition made by the European Commission. According to the European Commission, social economy is connected to private (non-governmental) economic and social activities. The activities of the social economy are seen to have a social dimension. When the results of the social economy are shared fairly, citizens are encouraged to take an active part in promoting their own social and economic welfare. (KOM (2007) 725, 7-8).

The social economy has balanced inequality and fostered the social and economic development. Social political measures like housing, temporary support for unemployed, layette, improvement of food quality, focus on hygienic ways of dealing milk and meat products meant considerable social and health improvements. Social political aims and practices were one of the central innovations and drivers on the diffusion of consumer co-operatives around the country. (Inkinen 2001, 113-114) Co-operatives have played, and still do, a central role in building up the Finnish welfare state.

Co-operatives, associations and mutual societies as well as co-operative banks, and credit union type saving societies represented self-help and self-defence during the change from agricultural society to industrial society. (Laurinkari 2007, 64) Mutual

An amount of the social innovations of the social economy and its services was transferred to the public sector, when the welfare state was developed and matured. This happened in Finland from the 1940's to 1980's. Municipalities took over the responsibility to organise and finance universal welfare service functions. Finland was recognised as one of the Nordic welfare states. In addition to social and health care, widespread welfare policy has extended to education, employment, housing and leisure (e.g. Niiranen et al. 2009, 9).

Entering the 1990's the steam of inclusive welfare state ran out. Difficulties were linked, among other things, to the bank crises after the economic deregulation. This caused an economic recession followed by extremely high unemployment. The shift from full employment to mass unemployment was very fast and dramatic.

The emphasis has moved from the social rights of the citizens towards social duties also in the Finnish welfare state. This transfer means changes in organising welfare services and in privatising them. It also leads to changes in availability of the welfare services. The previously universal services have become more selective. Therefore it is necessary to consider to what degree and in what way can social enterprises work for the best of the citi-

zens. It is a paradox that social enterprises can be seen as an element in the process of privatising but also as an indication of the strength of the civic society (Hulgård 2010, 7-9)

## SOCIAL ECONOMY IN RENEWAL OF THE WELFARE STATE

There is a major change taking place in the Finnish welfare state. The factors behind it have been recognised and are well-known: demographic change, need for more and different types of individualised welfare services, difficulties to recruit new staff and motive the existing staff in the field of welfare services. Extreme challenges exist delivering services in sparsely populated areas when at the same time investments from municipalities and the public sector are scarce.

The transformation is the result of a number of simultaneous changes in needs and demand for services, legislation, funding, education and public engagement to different social policy measures and programmes as well as changes in values and motivations of citizens.

The consequence is increased competition and (quasi)markets for delivering public services. The shift in social service provision during the last two decades from public to private service (including different types of social enterprises) provision is clear.

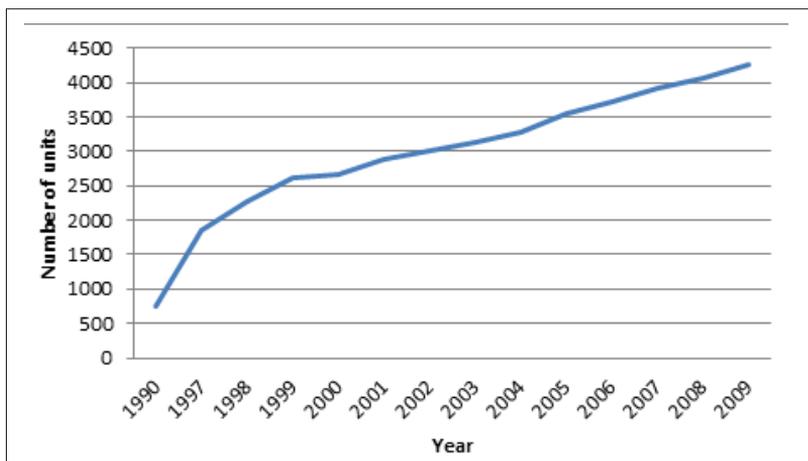


Figure 1. Change in private operational units in social services 1990-2009  
Source: [www.thl.fi/yksityinenpalvelutuotanto](http://www.thl.fi/yksityinenpalvelutuotanto) (25.3.2011)

In 1990 there were 741 private operational units in social services; in 2009 they were 4272, of which 36 % (over 1500) were maintained by associations. The curve for public spending on social services provided by private units follows same pattern as above. Around 17 % of all social services are provided by associations. Public spending on social services was 8, 1 milliard euro in 2008. For private services, the share was 30 %, that is 2, 43 milliard euro. The municipalities were the biggest buyer of private services with 1, 5 milliard euro. Public procurement from private actors is estimated to increase still because of the strategies in municipalities, customer's choice approach and expansion of the service voucher experiment and tax exemption for household services and some homecare services. (Ibid; TEM 2011).

Services where more than 50 % are delivered by private sector are: community care services (e.g. mother and child homes and shelters), mental health services, housing services (for special needs), elderly care, child welfare and protection and social and community work with alcohol and drug abusers. ([www.thl.fi/yksityinenpalvelutuotanto](http://www.thl.fi/yksityinenpalvelutuotanto) (25.3.2011).

Large companies have increased their share in offering social services. Part of the growth can be explained by the fact that associations have hived off their service production. In general, the actors of the social economy are very vulnerable as economic units due to the size, limited resources, operational conditions or other reasons. These factors are a central reason why operational units within social economy have difficulties to act as credible bidders of services or as partners, when production of welfare services are planned in municipalities, or as subcontractors to large enterprises. It may be possible that traditional social economy e.g. welfare associations can build social enterprises that operate on the market, welcome competition and are business-oriented but still maintain their ideological identity. At a short range this is in practice impossible without outside support and investments from the public sector (Mäkelä & Kostilainen 2008).

The present model of organising welfare services is going through even quite radical changes. This concerns especially the welfare services produced by associations that have had an established position and have played an important role in the welfare state. When the operational environment is becoming more competition-led, the associations have established enterprises to conduct their service production.

The position of the associations as producers of welfare services has been examined a lot lately. There are many obstacles and restrictions, but very little room for combining business aims and social goals.

When welfare state retreats and is unable to provide services needed and where markets are not attractive enough to for-profit enterprises different kind of social enterprises have been established to complement the need. Only in a few major cities has it been possible to develop market-driven welfare services. Social enterprises have taken and got the task to employ those in weak labour market position and also to organise the most unprofitable (welfare) services, usually in remote areas. The challenges to organise services in remote areas are acute. The population gets older and at the same time municipalities have less economic opportunities to stand for the services. These areas lack markets that would interest enterprises seeking mainly profits. This is why the answer in these areas might be in establishing social enterprises in one way or the other (e.g. Pihlaja 2010, 91-92).

The structure of the Finnish society has been inclusive throughout the stages of growth and maturing of the welfare state. The aim of the welfare state has been enabling to improve poor living conditions and citizens social and economic wellbeing. The push for developing welfare services came often from the social economy. In Finland, the present time of major changes has meant a transition towards a more exclusive welfare state. In exclusive society, the institutions do not work for the benefit of the most vulnerable groups. In the welfare state has, therefore, grown a deficit in morale that is becoming apparent especially in growing individuality that gnaws the feeling of togetherness (Hiilamo 2011, 26-27; Niiranen et al. 2011, 9).

In the social policy discussion, entrepreneurial activities with strong social goals can be connected to policies that aim to bring back the inclusiveness of the enabling welfare state. According to this vision, social policy has to become more remunerative. Therefore the public authorities have to make social investments so that they enable positive transitions (e.g. Giddens 2000). Transitions are positive, first and foremost, for the individual but indirectly also for society. The state has to invest resources, whenever possible, in human capital, not in direct payments of passive social benefits. The starting point is to maintain the welfare state as a competitive system. This is done by adjusting the welfare state with the help of (social) (Hiilamo & Saari, 2010).

Emphasizing the policy of enabling welfare state and social possibilities (Huilamo & Saari 2010) can be seen as criticism of the exclusive welfare policy. The policy of enabling welfare state aims to further the wellbeing of the citizens and not to define wellbeing from outside the individual as is done in the system-centred way of approach. The institutions should rather support than restrict the aims of the citizens to increase their own wellbeing. We will study next how the enabling welfare state policy has been implemented in practice in Finland during the last two decades.

## **SOCIAL ENTERPRISES AS A MEANS OF ENABLING SOCIAL POLICY**

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New types of social economy organisation e.g. different forms of social enterprises, activities and tasks in the welfare state have been evolving since the beginning of 1990's when Finland joined EU in 1995 and started participating in different EU funded projects and programs. The changes in the operational environment have made the reforms necessary also in traditional social economy organisations. In particular the European Social Funds and EQUAL-program has been a major factor in development and disseminating of different forms of social economy organisations e.g. social enterprises.

In the early 1990s, new social enterprises were established in Finland. As such we consider different new forms of co-operative enterprises, especially worker co-operatives but also other types of self-help groups established by the unemployed people. New social economy enterprises were developed from the need of self-help but became soon an object of (European) political steering. This can clearly be seen in the European Social Fund programmes and their documents, operation guidelines and economic resources reserved for and steered to the activities. Our sources in this chapter includes European Social Fund Single Programming Documents from structural fund periods 1995-1999; 2000-2006; 2007-2013; EQUAL program documents, Evaluations reports of these programs and personal field work in diverse development projects of these programmes.

## **SOCIAL ENTERPRISES AS A NEW SOCIAL MOVEMENT**

During Finland's first structural fund period in the EU 1995-1999, a Finnish model of new co-

operatives was developed. Hundreds of new co-operatives were established in Finland thanks to influence, guiding, steering, adult education and educational measures of the national New Co-operative Project, the Institute for Co-operative Studies at the University of Helsinki and the KSL Civic Association for Adult Learning. Research in co-operatives was lively and a regional information model of for co-operative establishment was created. Consultants and civil servants were educated, and study groups were set up to establish co-operatives. Managers of the new co-operatives were trained in co-operative entrepreneurship and participative management.

The model of the Finnish new co-operatives was benchmarked from other European countries, mainly from Italy, Spain and UK. The new co-operatives were seen having potential to become an organisation for network-based working models and methods. The aim was to lower the barriers between entrepreneurship and paid work. The labour co-operative model enabled to combine work and unemployment and offered a flexible way to maintain social security. On the other hand, co-operatives were seen as measure to produce welfare services with the help of decentralised ownership and to integrate to the labour market unemployed and those with difficulties to find work, as the Italian social co-operatives had done.

## **SOCIAL ENTERPRISES AS A LABOUR MARKET MEASURE**

During the structural fund period 2000-2006, programmes were used to develop an operational model for the Finnish new social economy and social enterprises. The Italian model of a consortium was rooted in Satakunta and Lapland as a Finnish application of the model. The national network was developed by reinforcing the co-operative information centre in Tampere. People that were sharing information got organised and strengthened the European networks. Education and research on co-operatives was reorganised and focused in specific questions concerning remote areas. A network model was created to organise education and research activities in collaboration with different university units.

After the short debate the Law on Social Enterprises came in force in 2004 in Finland. The Law limits social enterprises only to the field of work integration. With the help of the law on social enterprises (Law on Social Enterprises 1351/2003), the investments and activities were directed to the work to develop work integration social enterprises.

The forum for social enterprises gathered different interest groups to discuss the Finnish model for social enterprises. The national support structure for social enterprises aimed at advancing establishment of Finnish social enterprises. The same aim could be seen in the project plans of many regional development projects. National theme work groups integrated development projects for social enterprises. These structures collected and mainstreamed good practices that had been created all around the country in order to improve growth of social enterprises.

### **SOCIAL ENTERPRISES AS A VEHICLE RENEWING WELFARE STATE SERVICE PROVISION**

Recently there has been political interest to broaden the concept of social enterprise in Finland. Advice on development of social enterprises was now searched for mainly from Great Britain. The business model for social enterprises, its dynamic nature and hype caught the interest of Finns.

During the present period of the structure fund 2007-2013, the steering is focused on the development of the intermediate labour market and on the business model that is inspired by the UK model for social enterprises. The intermediate labour market has been seen as a means to alleviate structural unemployment that has remained as a severe social problem in Finland. There are many organisations active in the intermediate labour market that strive to integrate into work those in weak labour market position and to rehabilitate those with difficulties to get work.

The role of the social enterprises in relation to the intermediate labour market is unclear. The Ministry of Employment and the Economy is steering a national development project for social enterprises. It is expected to come with policy recommendations that aim to improve the preconditions of social enterprises to operate and on the other hand it offers guiding and support to establishment, development and growth of social enterprises. At the same time the incentives to social enterprises (Law 1351/2003), meagre even from the start, have disappeared.

In recent Finnish debate social enterprises are expected to combine the business skills of private sector to a strong social mission. Various stakeholders are expecting social innovations from the sector that might have an important role in delivering public (welfare) services and in the other hand in the field of work integration. According a working group appointed by the Ministry of Employ-

ment and the Economy social enterprise are seen as a business model for reinforcing, and diversifying the forms of entrepreneurship, renewing public service delivery, and organising non-governmental organisations payable service functions and integration into the labour market (Laiho et al. 2011). Forms of assistance for innovations, development and growth of social enterprises are developed. At the same time, research in social enterprise activities is taking organised forms and creating international connections and interaction.

A national co-operatives project promotes co-operative entrepreneurship through advice, education and influence (amongst the civil servants in enterprise services). The project is carried out by Tampere Region Co-operative Centre under the steering and assignment of the Ministry of Employment and the Economy.

A number of projects have been developed in Finland to mobilise people to establish and develop social enterprises in its different forms. These projects have had a major impact on social economy. It has also impact the role what social enterprises represent towards welfare state. Social enterprises have had two roles: 1) change agents and 2) contract partners of public services. The table below describes the development and roles of the Finnish social enterprises.

**Table 1.** Development phases of “New” Social Enterprises in Finland

“SE’s as a new social movement 1995-1999”	Self-help, labor co-operatives, “Italian model”, bottom-up approach development.  SE’s as change agents.
“SE’s as a labour market measure 2000-2006”	Law (1351/2003) on SE’s, misinterpretation of SE concept, in reality WISE’s, mix of different European influences, top down approach to development.  SE’s from change agents to contract partners.
“SE’s as a vehicle renewing welfare state service provision 2007-“	Enlarged approach towards SE’s, SE’s as a part of welfare-mix provision of welfare services, high impact from UK model, intense top down approach to development, but also some bottom-up initiatives.  In the field of work integration associations and foundations are seen as contract partners of employment services.  SE’s contract partners

## SIZE AND CHARACTERISTICS OF FINNISH SOCIAL ENTERPRISES

The traditional forms of social enterprises need to renew themselves, when the operational environment changes. Furthermore they need to find way to measure their activities in order to convince different stakeholders of their importance. As a business model under development, social enterprises bring new dynamics to the traditional social economy. At the end it is a question of survival in two senses: economically and as organisation, which is able to maintain its values and develop them further from that foundation.

A survey made by Finnish Institute in London used fairly loose criteria in defining an enterprise as social enterprise argued that about 15 000 enterprises in Finland regarded themselves as social enterprises due to having social goals (Karjalainen & Syrjänen, 2009). From our point of view this research dilutes the concept of social enterprise. We need definition for social enterprises which takes account of the sectors special characteristics e.g. strong links to civil society and works of EMES network (see Borzaga & Defourny 2001).

According to Idekoop survey (in Lilja & Mankki 2010, 18) on different categories social enterprises in Finland we can find four categories of social enterprises which each have special characteristics.

**Table 2.** Social enterprises in Finland by different categories

Type of SE	Outcome	Number of SE’s
Not-for Profit organisations delivering mainly social services (TSO’s)	Not for profit, services for general interest, community development and empowerment	3151
Businesses owned by TSO’s (clear social mission statement)	For profit, services for general interest, financing of services of TSO’s	50
WISE’s (according Law (1351/2003) on social enterprises)	For profit, employment for those in weak labour market position	154
Worker co-operatives (incl. labour co-operatives - one model of wise’s)	For profit, empowerment of members and employment opportunities for unemployed, services for members	1591
<b>TOTAL</b>		<b>4946</b>

#### 4.1. TSO'S DELIVERING SOCIAL SERVICES

Third sector organisations has had established role in providing private welfare services. Most of the private social and welfare service deliverers are third sector organisations. Municipalities are still legally responsible to organise social and welfare services to their inhabitants still many of them are outsourcing more and more production of the services to private providers. It is not clear at the moment how, with whom and which resources municipalities are organising in future social and welfare services. The policy messages to TSO's are not clear and confusing.

There are discussions and practices of various strategies to organise services: 1) short term outsourced contracts, 2) partnership approaches, 3) production remains in municipalities. In practice there is mix of all mentioned models. Another question is: which is the best way to deliver services for the benefit of all citizens.

When the operational environment changes, there will be – in addition to those already done or are still running – even stronger rearrangements of the established structures and actors. New kind of coalitions, mergers and partnerships on different levels will spring up to arrange and produce different welfare services. This means that the activities will be reduced or even closed down elsewhere.

Traditional associations are losing position as services provider they are facing competition and changes in field they are operating. They need to re-evaluate their role as a civic association and also as service providers. There is a need for consolidation, re-arrangements and new partnership approaches among social economy organisations.

At the same time there is a trend for increased professionalization and decreased volunteerism. Trading in the markets has increased. Usually this has meant the end of funding from RAY (the Finnish Lottery Association) which has been main funder of the welfare associations so far.

The funding from RAY is provided only in the areas where there is no fear of distortion of competition. During last decades, welfare associations have engaged more and more with economic activity, shifting them towards social economy or social enterprises. The Finnish tax authority has also taken a tighter insight into what activities it considers of general interest (and thus tax-free) and which economic. This has forced many associations to separate their operations into volunteer and economic activities.

#### BUSINESSES OWNED BY TSO'S

Growing tendency to establish businesses and owned them by traditional associations are recent phenomenon in Finland. Main reasons for establishing these limited liability companies are in the pressures coming operational environment which are more competition led. These can be seen as a reaction to maintain market share and position in growing welfare service markets. This is also adaptation strategy for changes in tax laws and grant regulations followed pressures from European Commission.

Until recent years welfare associations gained their income mainly from public grants (RAY), membership fees and private donations. During the last decade ESF and other programmes has been learning arena for change to diversify sources of incomes to more market based. By establishing businesses the for-runners of third sector organisations are developing and renewing their income strategies. This can be seen as a shift towards financing relying more on earned income strategies.

This transformation is one of the major sources for recent discussions and trends for developing the concept of social enterprises in Finland. Social enterprises are changing on a broad basis towards professionalism that applies to all tasks, especially those relating to leadership. The new concept includes for example "brand" diversifying social enterprises from other enterprises and voluntary welfare associations and special development funds for social enterprises. The use of SROI (social return on investment) and other evaluation means are expected to be used.

#### WISE'S (LAW 1351/2003)

Work integration social enterprises (Law 1351/2003) employed around 1250. Most of employed (60%) belongs to the target groups of the law. Only 24 of these wise's employ more than 10 persons from the target group. Out of the 24 largest wise's 17 are limited liability companies, 3 are co-operatives, 3 are associations and 1 is general partnership.

Ownership and background of these organisations can be categorized as follows: 1) work integration social enterprises which are re-organised from the sheltered workshops owned by municipalities and/ or by associations, 2) social enterprises established and owned by self-help and local organisations as co-operatives, 3) associations for unemployed and community associations, 4) entrepreneurial initiatives (see also Pättiniemi 2006).

**Table 3.** Industry and employment of the target groups of wise’s

	recycling	services	manufacturing	interim
employed (n)	140	203	133	43
share (%)	27	39	26	8

Source: Ministry of Employment and the Economy data on wise’s 2009 and Lilja & Mankki 2010, 12

The situation of registered (work integration) social enterprises (law 1351/2003) is problematic. The expected results have not met. The perspective in legislation is too narrow and there are limited incentives, if any.

**WORKER AND LABOUR CO-OPERATIVES**

Worker co-operatives based on self-help can be seen to have reached a credible and established position in business information and education system. New co-operatives are well-known even though their relative share of all the established enterprises is marginal. Around 200 new co-operatives are established yearly. Recent study on new co-operatives identified five categories of worker and labor co-operatives (Moilanen 2010).

The first identified form is employee owned co-operatives which are characterized by common business idea and stable work relations. These co-operatives focus on quality of work and working life. Members value participative, democratic and flexible organisation and decision making. This form is near other employee owned businesses.

Second identified form is co-operative of self-employed persons. Co-operative is seen as a means for administrative and marketing functions. It is also a support structure for increasing precarious employment. Co-operatives attract professionals who are not willing to start-up an enterprise by themselves. This form is comparable to other type of freelancing and sole part-time entrepreneurship.

Third category is labour co-operatives which can be described also as work integration co-operatives. Their aim is to find employment opportunities for their unemployed members. These co-operatives lack or have mostly weak entrepreneurial identity. They resemble projects aiming for employing unemployed.

Fourth identified category is co-operative form of incubators. These co-operatives offer simulation and training arena for university students and other who aims to be entrepreneurs. This form is part of entrepreneurial training and education.

Fifth category is co-operatives which attracts people who want to gain extra incomes from their hobbies out of their regular work. This might resemble hobby associations and other voluntary civil society activities.

According to Moilanen (2010) worker and labour co-operatives have about 12 600 members. Both genders are almost equally represented in the membership. Size of membership varies a lot. Smallest co-operatives have 3 members when largest 188, average size is 10 members. Worker and labour co-operatives employs around 6650 people out of which 1590 persons full time, part-time 1960 person and occasionally 3100 people. Most of members of these co-operatives earn partly their daily incomes also from other sources.

**FUTURE OF SOCIAL ENTERPRISES**

The employment of disadvantaged individuals is the essential nature of work integration social enterprises in Finland. The more up-to-date definitions consider social enterprises generating broader societal outcomes than operating solely as a labour market measure. Without combining social value creation to solid business such as profits, innovations and proactivity any type of social enterprise may become dependent on public funding due to their obligation to act as work-integration enterprises or reach the end of their life-cycle. (Stenholm et.al. 2010: 74) This applies also for other social economy sector social enterprises which are dependent on only one or few publicly funded customers (e.g. municipalities).

There are growing social entrepreneurial potential amongst younger generation of entrepreneurs (18-34 years). Other potential are those social entrepreneurs who are promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues (e.g. New Economic thinking and “degrowth”- movement).

Social entrepreneurial activity in Finland is relatively high compared other Nordic countries, Europe and globally. According latest GEM study

(Global Entrepreneurship Monitor) early-stage social entrepreneurial activity<sup>1</sup> shows that 2.6 % of the Finnish adult population is involved in early-stage entrepreneurial activities which emphasize social and or environmental goals. For comparison average active rate of all GEM countries was 1.8 %, all Nordic countries rate was 2,5 % and in Europe 1,7 %. The share of established business owners emphasizing the same issues was in Finland 1.9 %, among all GEM countries it was 0,5 %, all Nordic countries 1,1 % and Europe 0,6 %. In innovation-driven economies as Finland social and or environmental focused early-stage entrepreneurial activities provide services for disabled people, and in organizing recycling, and cultural activities. The study suggests that especially in richer countries the social entrepreneurship may partially replace other forms of entrepreneurial activities. (Stenholm et.al 2010: 74-78).

According to GEM-study 43 % of the Finnish early-stage social entrepreneurial activity is not-for-profit social entrepreneurship which emphasizes social and or environmental goals and has earned income strategy. According the GEM study it could have been assumed that the prevalence of social entrepreneurship would be low in Finland due to the national legislative requirement set for social enterprising. However, the rather high prevalence of early-stage social entrepreneurship in Finland suggests that this is not the case. These findings suggest that in Finland the social entrepreneurship is not perceived as an exclusive form of doing business or as a separation between social and business (Stenholm 2010: 78-79).

The new UK influenced business model for social enterprises has some promising elements in Finland but it is in danger of being watered down because of competition neutrality (view raised mainly by interest groups and federations of employers and businesses) and fears that there will be qualitative deteriorations in working conditions (view raised by trade unions). The established structures of society sticks to the benefits gained and inclusiveness in the Finnish society is crumbled.

Early stage and growth phase financing is one of the major issues concerning the development of social economy organizations in Finland. As mentioned, the main funder of associations and foundations has been RAY (Finnish Lottery Association) by RAY has radically changed its granting strategy e.g. due to EU regulation on state aid and claims for distortion of competition. RAY limits in its new strategy grants only for non-economic activities. Co-operatives and social enterprises do not have any special funding instruments designed just for them, but they are entitled to use the same instruments than all other business companies. The problem is that these instruments do not take social aspects into account. They also require profitable business, which leaves non-profit organizations outside. Thus social economy organizations are often caught in between, being too "economic" for RAY and too "social" for those providing business funding. (Pöyhönen 2009)

In May 2011 there was a launch of working group which proposed to establish investment fund of 50 Million Euros for social enterprises (Rove et.al 2011). The Fund's role should be to promote social entrepreneurship, which social value added effects could be demonstrated. Investment targets are selected using SROI analysis (Social Return on Investment). Measurement and evaluation of social impact is high in priorities of several development works and there was first launch of commercial web-based tool which integrates SROI and social accounting practices. All funders of social economy expect some evaluation and measurement practices of granted activities.

UK impact on recent Finnish development in social enterprise sector is clear. There is fresh coalition for social entrepreneurs and different stakeholders advancing the sector. Coalition is formed to be a voice for the sector. There is also work to develop specific brand or trade mark for social enterprise services and product to make sure certain quality criteria. There is also lot of discussion of what should be a new culture of giving. A magazine has been founded for helping homeless to gain their own living. The model is a spin off UK's Big Issue magazine.

<sup>1</sup> "The prevalence of early-stage social entrepreneurship is analyzed in terms of asking respondents about their "intentions to start up or current ownership of a business that has social, environmental or community objective, such as services to socially deprived or disabled persons, using profits for socially oriented purposes, organizing self-help groups for community action." " N=2004 in Finland, N=6038 in Nordic, N=104 117 in Europe and N= 171 739 in Global (Stenholm 2010: 75)

## CONCLUSIONS

Programme approach adopted by the Finnish Government has in development of social enterprises emphasized strongly employment of those in weak labour market position. When the programmes have been written out, also opinions and development needs of the actors of social economy have been heard. In the programmes it is, however, administrative standpoints that come through. There is a risk that social enterprises with their own starting points and goals are subordinate to the tasks that the administration has thrown them; that is on one hand to further employ those in weak labour market position and on the other hand to take care of the marginal, such as welfare services in remote areas. Problematic is that social enterprises are replaced by enterprises run entirely according to business principles where the markets are functioning.

This is why social enterprises should be given space and possibilities to organise socially and economically sustainable services. Sustainable organised social enterprises are based on and legitimised by quality, user-driven innovations, cost-effectiveness, and humane and preventive work. (Niemelä 2011). This can, at its best, reduce the morale deficit in society and increase positive social capital.

Social enterprises need to cope in operational environment, where competition increases. They need to react quickly and even without having a forecast of changing financial channels. At the same time they have become less dependent on only one or a few financial channels. When these channels have diversified and expanded, different interest groups – supporters, actors, beneficiaries – place more demands and expectations on the profitability, effects and impact of the social enterprises.

Social enterprises become more independent, when their dependency on only one or a few channels of financing, mainly public, decreases. The social enterprises have to justify their activities in a new way and their efficiency by expanding their accountability. They can also act as *avant-garde* in making the social impacts visible. This is in line with reputation management and social marketing – based on the values and social goals of the social enterprises – when they compete for financing and personnel. Fulfilling equally the expectations and needs of different interest groups becomes a key factor for success for social enterprises.

As a result of rearrangements there will be developed networks of strong actors from the traditional sector of the social economy. The smaller and weaker actors will merge into stronger networks

close by or abolish their activities. Applications of the Italian model of consortium will increase in the Finnish society. Small actors that are economically viable can merge and/or be united. This way they can maintain and strengthen their positions in a system that is more and more opening up for competition.

Those social enterprises, whose culture and ways of operating are put on an economically and socially sustainable ground will continue and develop as problem solvers of social problems and as hubs for social innovations.

A considerable change in the operational environment makes managers of the social enterprises to renew their strategic thinking. How will the ideology of the organisation live forth in the strategic choices when the management needs to pay increased attention to the economy? On one hand the know-how of the personnel has to develop and on the other hand the availability of personnel is an on-going problem. A social enterprise as a work community challenges leadership on all levels and stresses the skills of the workers and the managers to cooperate at the work place. Another challenge when managing a social enterprise is to get those in the board and the management to pull together (Compare to e.g. Kittilä & Koski 2011).

In social enterprises can appear following challenges (Pättiniemi 2000, 19-20):

- social goals – competitiveness
- efficient and prompt decisions – interest groups' possibilities to use influence
- allocation of the results – social (solidarity) goals
- growth in number of employees/members – participation of members in decision making
- growth of the enterprise – decline of information asymmetry between different interest groups

Anyhow it is necessary to consider to what degree and in what way can social enterprises work for the best of the citizens.

When market-based steering mechanisms become more common in society social enterprises that strive for social goals, responsible management and business skills are in demand. If business know-how is not part of the core skills among the actors of the social economy, it has to be acquired through education. Training that in contents and quantity is sufficiently broad and regards the needs of the target group, make sure that the necessary skills will be acquired.

Correctly targeted education can increase and develop know-how among the actors of social enterprises to produce and conceptualise services.

Education also helps to develop tools, attitudes and skills in substance, goals and development of the activities. Education is the base for improving professional ability and it supports development of the social enterprises in the new partnership and service production environment.

As stronger and more credible partners, social enterprises could, better than now, meet the challenges of the future and be able to offer high-quality services wider than before.

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# CO-OPERATIVE SOLUTIONS IN HEALTH AND SOCIAL CARE: A PARTICIPATORY SOCIAL ENTERPRISE MODEL

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## INTRODUCTION

Health and social care services are quasi-public goods that are provided by various organizational forms and financed by social insurance, taxes and user fees. How to cope with the rising medical expenditure in a rapidly aging society is a crucial problem facing all industrialized nations but how to build the effective communication between providers and users is another important problem.

In general, users are placed in a disadvantageous position versus professionals and feel deprived of the right of choice and the access to information. Traditionally doctor's decisions have been seen as final and absolute, leaving no room for patients to question or seek second opinions. Patients generally lacked knowledge on diseases and could not read case records even if disclosed. When they suffered from medical accidents or malpractices, most of them had to swallow the costs. As such, user's interests had been largely ignored. There is increasing discontent of patients who end up with exits or lawsuits.

The problem is how to improve user's capability in the medical industry where sheer asymmetric information prevails. Recently a number of initiatives to cope with this problem emerged. The individual consumer may directly tap medical information from websites but consumer's collective actions seem to bring about more effective solution.

Health co-ops are the social enterprises that provide health and social service and have potentials to empower users in a systematic way. The Japanese health co-ops were classified as user-owned by the extensive UN survey in 1997. In fact their members are mostly healthy consumers who wish to be prepared for the risk of illness or injuries, but medical professionals are also involved. Their mission is to deliver health and social care

by facilitating user participation to create a better quality of life. At the grass root level, user members are encouraged to learn about health promotion in small neighborhood 'Han' groups and to conduct self-check of health conditions by testing and keeping records of blood pressure, sugar and salt contents in their urine etc. using simple devices. Once irregularities are found, members will have health check-ups and meet doctors at co-op hospitals or clinics. More active members attend various courses organized by health co-ops and become voluntary 'health advisors' who play pivotal roles for the health promotion activities among members. Through these activities, users have more consciousness about their own health conditions, which enables them to play more active role in maintaining a healthy life and combating diseases. Health co-ops also seek to promote transparency in the medical practice through implementing a Charter of Patient's Rights as a guideline to be followed by both patients and service providers. To this end, patients are given opportunities to learn about health conditions precisely through disclosed case records and counseling so that they have the capacity to make right decision on suitable health care plans. Thus co-ops seek to bring about openness and democracy in the medical industry.

This paper will explain the institutional framework of health and social care as a background and the overall relationship between service providers and users in terms of access to information and capability. Then it will analyze the elements of health co-ops as a social enterprise model from goals, stakeholder and resources. It will describe their evolution and current situation. Finally it will suggest ways to evaluate health co-op's initiatives for enhancing user's capability in health and social care from different perspectives.

## INSTITUTIONAL FRAMEWORK OF HEALTH AND SOCIAL CARE AS A BACKGROUND

The Japanese health care system is characterized by a compulsory medical insurance system, integration of providers on the supply side, and free access for consumer on the demand side. Universal coverage under the public medical insurance system was accomplished in 1961. The entire nation is currently covered by one of public medical insurance scheme for workers, government employees, teachers, and the self-employed. The scheme, however, has accumulated enormous losses because of its obligation to finance health services for the elderly. Since the aged citizens surpassed 20% of total population, their ever-increasing medical costs have been one of crucial problems. Over the years, the government has tried to solve this problem, but efforts have been hampered by vested interests and ended in deadlock without solutions. Japan has seen users co-payments gradually increase from 10% to 30%, which is widely seen as the upper limit. The system of social services provision in Japan has also undergone a drastic change since the 1990's. Municipalities and social welfare corporations had exclusively provided elderly care services financed through taxes until 2000. However, in view of the unprecedented speed of ageing, this system was transformed from a system of selective service provision based on administrative disposal, to universal service provision based on users' contracts. After the German model, the Law for Long-term Care Insurance (LTCI) was enacted in 1997, which opened the door to non-public entities including co-operatives.

The supply side ranges from hospitals to community clinics (general practitioners). These medical institutions are established as medical corporations, public institutions, private and other entities including health co-operatives. They are all designated as not-for-profit entities as stipulated by the Medical Service Law. Although medical corporations are seen as typical nonprofits and not allowed to distribute surpluses, their corporate tax rate is identical to conventional companies. In general, medical corporations and private general practitioners operate in the black, while public institutions are, for the most part, operating in the red. There is a growing gap between oversupply in large cities and under supply in remote areas, while the weak liaison among medical institutions is blamed for problems associated with accepting and treating emergency patients who are sent around from one hospital to another and consequently sometimes died in ambulances. The system focuses on medical treatment for illness, while preventative

health care is undervalued and the linkage to long-term care is still weak. There is a strong tendency, however, towards horizontal and vertical integration through the formation of hospital chains and 'medical-welfare complexes', integrating long-term care facilities within the same groups.<sup>1</sup> Such trends have spurred the commercialization of medical and social services.

The demand side of medical services is characterized by consumers' free access to medical institutions. Consumers can visit any hospital or clinic without an appointment, but a delivery system for coordinated care, from primary care to advanced care, is yet to be established. This situation has resulted in heavy congestion in some large hospitals where it is more and more common for outpatients to receive just three minutes diagnosis after waiting for three hours. The fee-for-service payment system has resulted in excessive examination and over prescribing of prescription drugs, which in turn has contributed to the rising medical costs and increased side effects from drugs. Patients do have to pay extra costs for services not covered by medical insurance, e.g. advanced medicine, partially covered hospital rooms and so on. Medical insurance does not cover 'health and wellness promotion', the means which enables people to increase control over, and improve their own health.

As a whole, the Japanese health care system has attained relatively good cost performance in ensuring a long life expectancy, a low infant mortality rate and a low ratio of total medical expenditures to GDP (7.8% in 2000, placing Japan 16<sup>th</sup> among 28 OECD countries). Japan was ranked as No. 1 in the WHO's Overall Health System Attainment in All Member States.<sup>2</sup>

<sup>1</sup> Niki, R. *Hoken Iryo Fukushi Fukugotai (Health-Medical-Welfare Complex)*, Igaku Shoin, 1998.

<sup>2</sup> World Health Organization, *World Health Report 2000*, 2001.

**Table 1** Overall health system attainment and performance ranking

Goal Attainment Rank	Member State	Index	Expenditure per capita Rank	Overall Performance Rank
1	Japan	93.4	13	10
2	Switzerland	92.2	2	20
3	Norway	92.2	16	11
4	Sweden	92.0	7	21
5	Luxembourg	92.0	5	16
6	France	91.9	4	1
7	Canada	91.7	10	30
8	Netherlands	91.6	9	17
9	UK	91.6	26	18
10	Austria	91.5	6	9

Source: WHO index, estimates for 1997

The Japanese health care system, however, is certainly facing growing difficulty. The supply of medical services, as a whole, are sufficient in quantity, but geographically unevenly distributed and in serious shortage in under populated areas, especially in mountainous regions and on remote islands. Declining numbers of doctors in some divisions, in particular, obstetricians and pediatricians, has meant a serious shortage of related services even in large cities. The public policy, aiming to hold down medical expenditures since 1983, has created a permanent shortage of human resources, including doctors. As a result, the number of doctors per 1,000 residents was 1.9; lower than 2.8, the average of the OECD countries, while outpatient's visits are much higher than the OECD average (14 times a year vs. 6.2 times). This means that Japanese doctors and nurses are working more to fill the gap. In a sense, the Japanese efficient health care system has been maintained by the hard work of professionals, some of whom quit from burnout or have even died from overwork. An increasing number of doctors have chosen to move from relatively high-risk low-income hospital staff to, low-risk high-income GPs, which is often seen as 'sabotage or slowdown by exit.'<sup>3</sup> The stressed working environment is known to contribute to serious medical accidents. These phenomena have been often reported by the

media and described as the 'collapse of the health care system.' There is also a growing concern on the quality of services, including the quality of life for bed-ridden patients and the terminally ill.

Rising medical costs (in excess of JPY30 trillion) and the accumulating deficits of medical insurance schemes are another serious problem. This is especially due to the increasing elderly population and rising costs of advanced medicine. It is estimated that the elderly population as a proportion of the total population will double from 20% to 40% from 2005-2050. To counter such demographic change the government has sought to contain the growing public expenditure for medical care since the 1980s through drastic restructuring of the health care system. In April 2008, a new health insurance scheme for the 'old old' was introduced to separate out those people older than 75 years of age from the existing schemes in order to place limitation on the provision of services, while also holding back pensions of this groups in order to cover insurance premiums. It sparked a wave of resentment among the elderly population leading to the defeat of ruling party LDP candidates in the Upper House election and to modifications of some parts of the scheme. After the landslide defeat of the LDP in the General Election in August 2009, the new government sought to overhaul the whole scheme, but could not so far make drastic reforms in line with pledges in its manifestos.

<sup>3</sup> Komatsu, H. *Iryo no Genkai* (Limitation of Medicine), Shinchosa, 2007, pp.188-194.

## PROBLEMS OF CONSUMER CAPABILITY AND RISING DISCONTENTS

Generally, the information provided between providers and users of health care services is extremely asymmetric. Medical practitioners have professional qualifications, which they obtain as a result of learning and practicing for many years, while patients are placed in a disadvantageous position versus the former, deprived of the right of choice and the access to information. Traditionally doctor's decisions have been seen as final and absolute, leaving no room for questioning or second opinions. There were very few sources of reliable information on medical care and service providers, partly due to the restriction on advertising and partly due to the medical institution's reluctance to engage in competition. Patients generally lack knowledge about diseases and cannot read case records, even if disclosed. Once hospitalized, patients were left no choice, often having to pay extra charges for hospital rooms. Even when they suffer from medical accidents or malpractice, many of which have surfaced only recently, most patients have had to swallow the costs. In the political arena they have had no voice while doctor's associations are organized as powerful pressure groups, often exerting strong influence in the medical care system, including schedules for remuneration (fees). As such, users have difficulty accessing information, making decisions and addressing illnesses. Patient rights have been largely neglected.

Recently the idea of informed consent and second opinions were introduced to help users make informed judgments. Within the health care system, informed consent means that patients agree to medical actions after being informed (and understanding) about the treatment, alternatives, possible complications or aftereffects, prognosis and costs. Both doctors and patients are accepting this system of consent, but it requires patients to have some literacy in order to be able to understand and judge on what is explained and proposed. There are no guidelines on the extent of the information to be disclosed, and the practice is left to the discretion of individual medical institutions. A second opinion means that patients seek other doctor's opinions, in addition to those of the physicians in charge. This is to help patients make better judgment by listening to a third party doctor with specialist's knowledge. These methods aim to widen users' choices, but it requires consumers to have an enhanced capacity to comprehend complex issues. Therefore, there exists a strong need to empower users to take an active part in the health care process and work together with providers to learn how to lead a healthy life.

Hirschman initiated a discussion of 'exit' and 'voice' as alternative consumer responses to the decline in performance of organizations, and as an alternative to improve the quality of goods and services. 'Exit' refers to the typical market response, where disappointed customers change their patronage to other suppliers for goods and services they purchase. 'Voice' is the typical political response, where customers verbally express their disappointment about poor quality, either individually or collectively.<sup>4</sup> He further notes that with products and services, where there is a highly disproportionate knowledge between sellers and buyers, such as with medical care, 'voice' has an important role to play in improving quality.<sup>5</sup> In health care, service users have the choice to exit or voice their opinions vis-à-vis service providers. Traditionally patients were dependent and passive to doctors and rarely voiced complaints against the latter, even if they were dissatisfied with services or care. They endured services or could easily change doctors under the free access system. However, patients' consciousness is changing for several reasons. First, the major causes of death has shifted to such diseases as cancer, heart attacks and strokes, which are strongly related to a person's lifestyle and long term care. Patients are expected to have some knowledge about diseases and control their own lifestyle as part of their recovery. They are even encouraged to have second opinions that were previously seen as inappropriate and as shopping around for doctors. Thus the power relationship between doctors and patients has largely changed from a one-sided dictation to collaboration. Secondly, patients have become more conscious about their rights as patients to use doctors to solve health problems. They are becoming wise consumers who buy health services, rather than passive beneficiaries of such services. They request disclosure and accountability of medical institutions.

In addition, patient's discontent is on the upswing trend as media coverage of medical accidents or malpractices has increased since the late 1990s. (See Figure 1) Increasing patient's co-payment from 10% to 30% seems to have also contributed to people's increased awareness about medical costs. Furthermore, the number of civil lawsuits for medical accidents and other claims has doubled in 10 years.

<sup>4</sup> Hirschman, A. O., *Exit, Voice & Loyalty, Responses to Decline in Firms, Organizations and States*, Cambridge, MA & London: Harvard University Press, 1970.

<sup>5</sup> Hirschman, A. O., *Essays in Trespassing*, Cambridge, London and New York: Cambridge University Press, 1981.

With a greater concern about their own health and wider availability of medicine-related information through the Internet and media, consumers are becoming increasingly informed about the costs and quality of services. At the same time, the news on advanced medicine such as gene therapy and regeneration medicine has increased consumer's expectation to a large extent. As a result, they are often placed in the ambivalent position between over expectation and distrust of the medical care industry. The enhanced consciousness of consum-

ers is seen as a positive phenomenon in that they are more proactive in maintaining health, but it has also been known to lead to overkill. Recently a new phrase 'Monster-patients' was created and sensationally broadcast by the media. The expression refers to demanding patients who make self-centered, unreasonable or even outrageous claims and often take violent action against medical institutions or professionals. This is an abnormal phenomenon and illustrates the need for effective dialogue between users and providers of health care services.

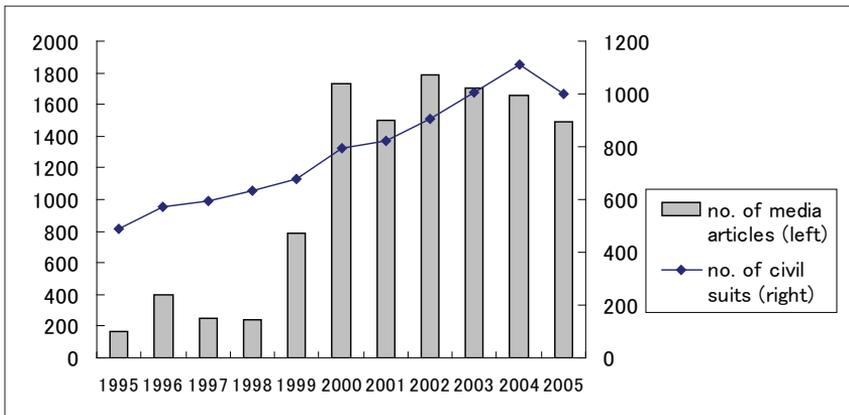


Fig. 1 Increasing media coverage of medical accidents and civil lawsuits

Source: No. of media articles in 4 major newspapers from Nikkei Telecom 21  
No. of civil suits relating to medical care, <http://plaza.umin.ac.jp/dhsc/>

## HEALTH CO-OP AS A PARTICIPATORY SOCIAL ENTERPRISE MODEL FOR DELIVERING HEALTH AND SOCIAL SERVICES

### HEALTH CO-OPS AS A PARTICIPATORY SOCIAL ENTERPRISE MODEL

The extensive survey on co-operative organizations in the health and social care sectors conducted by the United Nations Department for Policy Coordination and Sustainable Development in 1997 provided detailed classification of co-operatives whose business goals are primarily or solely concerned with health and social care according to the services they provide and their ownership.<sup>6</sup> It classified the Japanese health co-ops as user-owned. This

classification holds true since these are owned and controlled by members who are overwhelmingly consumers and registered under the Consumer Co-operative Law of 1948.

Health co-ops can be seen from a social enterprise perspective which has three dimensions; social integration of disadvantaged people excluded from the labor market, provision of the public goods and services (personal social services) and community regeneration. Their main function of delivering health and social services are well fit in the second dimension while their efforts to build healthy community also touch upon the third dimension. They are medical institutions that are defined as nonprofit entities by the Medicine Law and not allowed to distribute surpluses by the Consumer Co-operative Law.

Their central organization called the Health Co-op Association (HCA) summarized their characteristics as follows;

<sup>6</sup> United Nations Department for Policy Coordination and Sustainable Development, *Co-operative Enterprise in the Health and Social Care Sectors*, 1997.

- a) It is a medical institution that is primarily composed of healthy people.
- b) It places emphasis on health promotion and institutions to secure it.
- c) It has medical facilities that secure user's participation in health care.
- d) It has Han groups where members can participate as a principal.

As such, health co-ops are neither patient's groups nor entities controlled by professionals. They seek to meet the consumer demand for health and social care by facilitating user's participation, and to create a local network for health promotion, medical treatment and long-term care.<sup>7</sup>

Health co-ops have put special emphasis on health promotion to meet the needs of healthy consumers that constitute the bulk of their membership<sup>8</sup>. So they have made various efforts to enhance user's capacity for health promotion through member's learning and self-monitoring. Co-op members are encouraged to attend lectures, take correspondence courses and enroll in 'health colleges' organized at the local, regional and national levels so that they may become co-operative 'health advisors' who then lead voluntary activities within Han groups.<sup>9</sup> Members in Han groups, with the initial assistance of nurses and health advisors, learn how to monitor their own health conditions by taking their blood pressure, measuring the sugar and salt content in their urine, measuring their fat content, and checking their teeth by using simple devices such as manometers and test papers. Such activities are conducive to enhance user's consciousness about their own health and can lead to changes in their dietary life. If irregularities are found from these self monitored tests, members will then make appointments to see doctors at health co-ops. These self-monitoring activities have proved to be effective for early detection and treatment of illness. From time to time, member volunteers conduct 'open air health checks' for the general public in front of supermarkets or in community facilities as part of a general co-op campaign for health promotion. Volunteers are also active in providing

non-professional, nonetheless essential services such as cleaning, laundry, and cooking for members in need of these services. These volunteers are mostly middle-aged housewives and retired people.

Such voluntary activities for preventive purposes have evolved into more comprehensive health promotion activities. Since 1997, "Seven Habits for Health" have been promoted by co-ops as one of their user sensitizing programs.<sup>10</sup> The intent of the program is to change consumer's daily habits and remove elements that can lead to disease and illness. To implement these habits, many co-ops encourage members to take part in 'Health Up Challenge' programs at which groups of more than three members make a commitment to participate in activities such as walking, exercising and diet programs for 60 days. These programs are designed and promoted by health advisors while professionals support them in the form of classes for dietary life, physical training, dental hygiene counseling etc. These initiatives are highly evaluated by municipalities and are often considered to be a part of official health promotion programs.<sup>11</sup> To gauge the impact of these activities, the HCA invites members to be monitors and conduct surveys such as the epidemiological survey of 4,000 families conducted from 1997-2001. The results were not so encouraging; the average achievement level for the "Seven Habits of Health Program" was 4.61 to 4.74 out of 7.00 for female members which was only slightly higher than it was for male members (3.92 to 3.89). The results showed that health related habits are persistent due to individual preferences and determined by a number of macro factors (working hours, economic conditions etc.) as well as micro factors (dietary life, family ties, etc.).<sup>12</sup>

Through these activities, nonetheless, users become more conscious about their own health conditions, which enables them to play an active role

<sup>7</sup> Hino, *ibid.*

<sup>8</sup> Health promotion is the process of enabling people to increase control over, and to improve, their health according to the WHO Ottawa Charter for Health Promotion.

<sup>9</sup> Every year ca. 10,000 members attend correspondence courses. Co-op schools, volunteer schools, home-helper training courses and culture courses are organized by primary co-ops. 'Health colleges' are organized to give 20-30 hours of lectures to volunteers on the basic knowledge on health care.

<sup>10</sup> Seven habits in daily life promoted by health co-ops include;

- \* To get sufficient sleep (7-8 hours)
  - \* To avoid overwork and take enough rest
  - \* To avoid smoking
  - \* To avoid excessive drinking
  - \* To continue moderate exercise regularly
  - \* To have a balanced diet with low salt/fat
  - \* To eat regularly including breakfast and avoid snacks
- The eighth habit 'Brush tooth morning and night' was added in 2005.

<sup>11</sup> Kawasaki, J., "Iryo Seikyo no Kenkozukuri to Machizukuri" ("Health Promotion and Community Building by Health Co-ops"), *CCIJ Monthly Review*, No.383, 2007.

<sup>12</sup> HCA, Report of Panel Survey on Health Habits of Health Co-op Members, 2003.

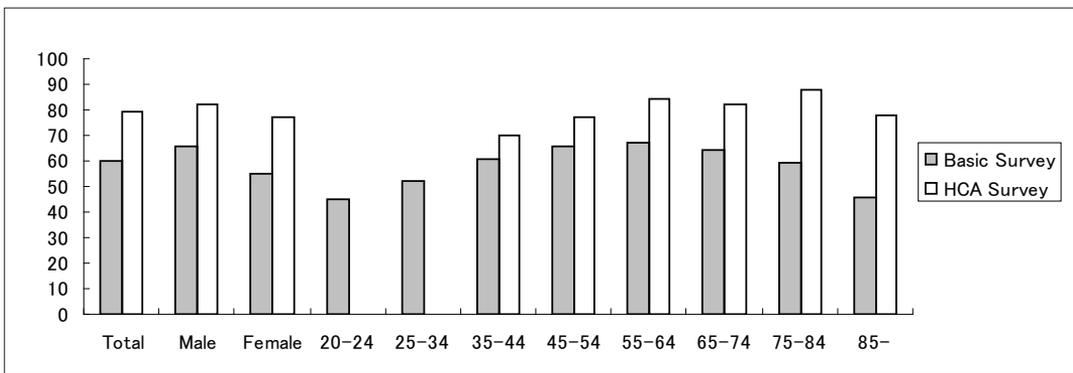
in leading a more healthy life and make collaborative decisions together with medical professionals to prevent or combat diseases rather than passively leaving decisions about his/her own health in the hands of their health care providers. As a matter of fact, 79% of co-op members receive annual health check-ups compared to the national average of 60%.<sup>13</sup>

According to Defourny and Nyssens, the social enterprise model is characterized by multiple goals, multi-stakeholders and multiple resource-

es.<sup>14</sup> The multiple goal nature means that social enterprise's mission includes social goals to benefit the community, economic goals connected with entrepreneurial nature and socio-political goals connected with a 'sector'. The multi-stakeholders character means such ownership structure could be an efficient way to achieve overall goals through representing different types of stakeholders on the board. The multiple resources are to be mobilized to sustain their multiple-goal mission by mixing the economic principles of market, redistribution and reciprocity (Polanyi). Hereafter health co-ops are analyzed through their missions, structures and resources.

<sup>13</sup> Ministry of Health, Labor & Welfare, *Basic Survey on Nation's Life*, 2001; HCA, *National Survey on Health Co-op Member's Consciousness*, 2004.

<sup>14</sup> Marthe Nyssens Ed., *Social Enterprise*, Routledge, 2006



**Fig. 2** Percentage of people who get annual health check-ups

### MISSION: DELIVERING HEALTH AND SOCIAL SERVICES AND CONTRIBUTING TO COMMUNITY BUILDING THROUGH CONSUMER PARTICIPATIO

Health co-ops have missions of delivering health and social services through consumer participation. The HCA has sought to promote consumer participation in the health and social service delivery through implementing a Charter of Patient's Rights as a guideline to be followed by patients and service providers.<sup>15</sup> It was formulated through active participation of stakeholders, crystallizing health co-op's views on health care. It goes beyond informed consent,<sup>16</sup> stating

that each patient, who is confronting disease and illness, has the following rights and responsibility:

- Right to be informed of disease, medical care plan and drugs
- Right to determine suitable medical care plan
- Right to patient's privacy
- Right to learn about their disease, prevention and treatment
- Right to receive necessary and optimum medical service at any time
- Responsibility to participation and co-operation

The Charter emphasizes a patient's right to be informed, to learn and make self-determination. To this end, co-ops started disclosing case records to patients to share information about treatment and medication, and provided various opportunities to learn about health so that the latter can

<sup>15</sup> The Charter was adopted on May 11th 1991, at the Annual Meeting of the HCA.

<sup>16</sup> Informed consent is generally understood to be a concept to promote patient's rights, but it can be a one-way communication from doctors to patients, as seen in the 'explanation and consent,' a translation used by the Japanese Medical Association.

have the capacity to make the right decision on suitable medical care plans. Some co-ops started to organize 'simulated patients groups' aiming to improve communication between users and providers, while others are trying out "medical care by multi-professional teams" to enhance the quality of services by enabling collaboration among different departments and various stakeholders placing patients at the center. Thus they seek to bring about openness and democracy in the industry, which tends to be closed and authoritarian. The HCA often organizes workshops to exchange the best practices that implement the Charter.

The other mission of health co-ops is to build healthy communities based on health-medical-welfare networks. There has been a longing to integrate health promotion, medical care and long-term care in order to address the changing patterns of diseases from acute/contagious ones to chronic ones, generate better-coordinated services for the beneficiaries and reduce overall costs. But such a goal is not easily achieved, mainly due to institutional and functional reasons. In order to attain the goal of building healthy communities, health co-ops are now increasing their involvement in the provision of long-term care as a natural extension of health promotion and medical care where they have accumulated experience and know-how. To this end, they are making substantial investment into training personnel and building facilities for long-term care. As a result, they are now the second largest long-term care providers in Japan with operations valued at JPY 43.8 billion in 2007. In addition, health co-ops often map out the local needs and resources, analyze health-related problems and possible solutions, and coordinate integrated provision of prevention, health and social care services. It may not be realistic for health co-ops to provide all kinds of such services due to their limited financial and technical capacity. Co-ops, therefore, function best in collaboration with other organizations, including municipal health centers, social welfare corporations, workers' co-ops and volunteer groups while also partnering with local authorities.

### **STRUCTURE: USER-LED MULTI-STAKEHOLDER ORGANIZATION**

The majorities of members are healthy consumers who want to be prepared for health risks (diseases or accidents), and want to lead healthy life. In this regard, health co-ops are different from organizations exclusively composed of patients. At the same time, medical professionals, including doc-

tors, nurses, technicians and pharmacists, are also involved as members of health co-operatives. In this regard, health co-ops are multi-stakeholder membership organizations involving both service users and providers. According to the statistics for 2007 compiled by the HCA, out of 2.6 million members, 24,000 (0.9%) are employees, including doctors, nurses and administrative staff. Health co-ops seek to create a synergistic effect by involving different stakeholders working together in the same organizations to attain common goals, i.e. promotion, maintenance, recovery and restoration of every user's health. It is expected that users can help providers offer better services by committing themselves to the health care process, while providers can help users to establish positive attitudes in maintaining health and tackling diseases.

Such membership composition leads to a user-dominant board of directors. In health co-ops in 2008, there were 1,943 lay board members representing users (72.4%), compared to 739 paid board members representing providers. In the case of Saitama Medical Co-op, 23 board members consisting of 21 housewives and 2 retired men represent users, while 10 members consisting of 3 doctors, a nurse and 6 executive directors represent providers. In most cases, co-op chairpersons are medical doctors. Having medical professionals on boards may give them disproportionately large power over other board members, which raises problems associated with governing co-ops in a democratic manner. All chairpersons are, however, well informed on co-operative values and principles in order to be responsive to user's voices. Executive directors are expected to function as trustees by bringing different interests together in health co-ops, while there is less inclination toward managerial dominance, which is often the case in many retail co-ops. As Ohno points out, health co-ops can provide a model for multi-stakeholder governance of medical institutions, while they still have to solve for possible tensions or contradictions between professionals and lay members, or between the mutual interests of co-ops and the public interests in medical institutions.<sup>17</sup>

In order to empower users in the process of health promotion and medical care, health co-ops have created a number of intermediary organs between the board and the membership, which aim to encourage users to participate in the administration of the organizations. At the grass root level,

<sup>17</sup> H. Ohno, A Study on Characteristics of the Governing Organizations of Hospitals in Japan: Seeking Possibilities of Stakeholders' Participation in the Hospital Governance, 2008, Ph.D. Thesis (Japanese).

user members are encouraged to learn about promoting health in ‘Han’ groups which meet regularly at members’ houses. Over 300,000 co-op members belong to 27,000 Han groups. This means that nearly 11.5% of members belong to Han groups, which involve 11.1 members on average. Han groups are voluntary gatherings where members undertake various activities such as self-health monitoring, leaning to cook with less salt, exercising and so on. On average they meet 2.9 times a year to promote mutual help among increasingly isolated city dwellers, especially elderly people.

In addition, district committees are organized in school districts to promote member’s activities and create networks with other organizations within communities, while user panels and opinion boxes are attached to hospitals and clinics to reflect user’s opinions about running of these facilities.

Such structure may lead to strengthen the multi-stakeholder nature of health co-ops, by involving users, medical professionals, care workers and member volunteers who will work together to enhance the well being of people and communities at large.

DC: District Committees UP: User’s Panel attached to hospitals/clinics

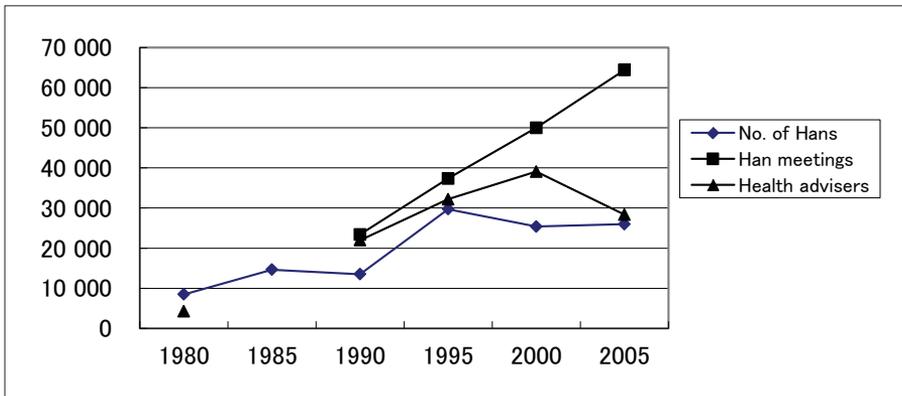


Fig. 4 Growth in Member Participation  
Source: HCA Statistics

**RESOURCES; PROFESSIONAL’S COMMITMENT AND MEMBER’S VOLUNTARY CONTRIBUTION**

Health co-ops depend on financial and human resources. In principle, there is no difference between health co-ops and other medical institutions in financing health and social care; compensation redeemed from compulsory health and long-term care insurances and patient’s co-payment. The health insurance covers 70-90% of incurred costs while the long-term insurance covers 90%. In both cases, taxes are included to sustain social insurance schemes for the elderly. The patient’s co-payment has been increased from 10% of costs to 30%. In addition, most of hospitals charge the extra costs to the patients who want to stay at hospital rooms with fewer beds instead of 6 beds as a standard.

This system was introduced to bolster the hospital’s revenue while it was generally accepted by patients who valued privacy and amenity; however except for a few cases most of health co-ops did not charge extra fees to the patients because of their egalitarian stance. They are also subject to the constraints applied to all medical/social care institutions; compliance to various regulations, services open to the public and non-distribution of surpluses.

Health co-ops have mobilized human resources through professional member’s active commitment and user member’s voluntary contribution. Needless to say, the qualified professionals are the most important resources in the industry. So, health co-ops have made a variety of efforts to recruit and retain committed doctors, nurses and other co medicals. To this end, they have conduct-

ed regular education on co-operative values and training on professional skills, accepted students and interns as trainees that can lead to future employment, and promoted the Center for Family Medicine Development in order to ensure that the professional providers would have an incentive in accomplishing co-op's mission of service delivery rather than earning extravagant money.

The member's voluntary contribution has played crucial role in recruiting new members, raising member's capital, and governing co-ops. They are encouraged to take part in the membership drive and raise funds when co-ops build new facilities such as hospitals, clinics and caring centers. The lay board members, delegates and health advisors play pivotal role in promoting such voluntary contribution while co-op staff are assigned as member relations officers (organizers) to coordinate member's activities mentioned before.

## EVOLUTION AND CURRENT STATUS OF HEALTH CO-OPS

### ORIGINS AND EVOLUTION OF HEALTH CO-OPS<sup>18</sup>

The institutional origin of health co-ops dates back to 1948 when the Consumer Co-operative Law was enacted, although there were forerunners before WWII. Medical service societies were set up in accordance with the Industrial Co-operative Law while so-called 'proletarian clinics' were created to cater to the working class who did not have access to normal medical care. These societies were formed by conscientious doctors who sought to serve the unprivileged at that time. Irrespective of organizational form, these early societies lacked the institutional framework to be constituted as democratic organizations enabling popular participation.

Hino classified four patterns in the creation of health co-ops. The first type was the constitution of health co-ops from the outset (e.g. Tottori Medical Co-op). The second was the transformation away from solely general practitioners (e.g. Tsugaru Health Co-op transformed from Tsugawa Clinic). The third was the transformation from other corporations including medical service societies or

medical corporations.<sup>19</sup> The fourth was the result of the separation of existing multipurpose consumer co-ops (e.g. Tone Health Co-op separated from Gunma Worker's Consumer Co-op or Tokyo Northern Medical Co-op from the Workers Club Consumer Co-op).

In 1957, the HCA was set up by twelve health co-ops to coordinate their activities as a national sectoral organization of the Japanese Consumers' Co-operative Union. The HCA's policy originally stated their mission as strengthening services for patients and members, simply seeing them as beneficiaries. However, many co-ops started organizing Han groups among members, encouraging member's health check-up activities and tackling diseases caused by air/water pollution during the 1960's. Accordingly, in 1969 the HCA made a policy to encourage member's health promotion activities, seeing Han groups as a place to ensure active member participation.

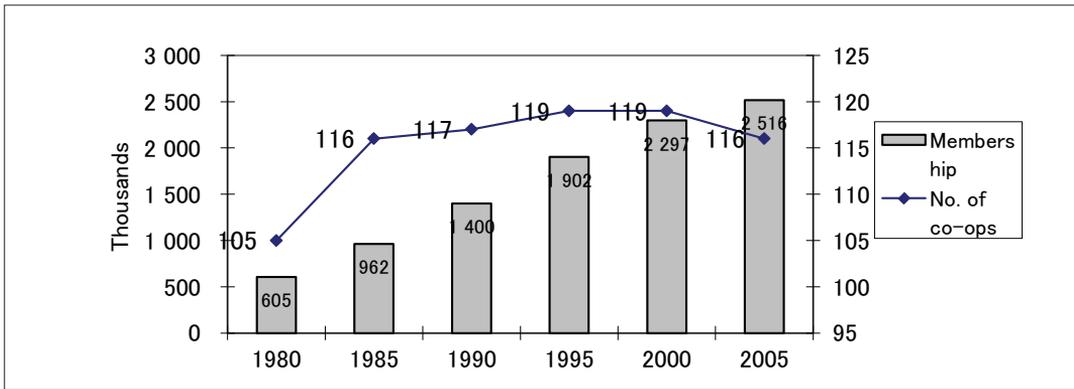
In 1988 the HCA adopted its first five-year plan to strengthen the health co-op movement including the task of establishing a charter for patient's rights. It was noteworthy that not only medical professionals, but also patients and user members took an active part in the process of drafting it. In 1991, the 'Medical Co-op's Charter for Patient's Rights' was adopted to facilitate user's self-determination pertaining to medical care. In 1992 the HCA took the initiative to hold the first International Health Co-op Forum in conjunction with the ICA Tokyo Congress, which resulted in the formation of the International Health Co-operative Organization.

In 2000, health co-ops entered into the elderly care industry in accordance with the Long-term Care Insurance Law and rapidly expanded facilities and human resources for service provision. The HCA promoted the health co-op's involvement in elderly care and adopted guidelines for 'Medical Co-op's Long-term Care' in 2005.

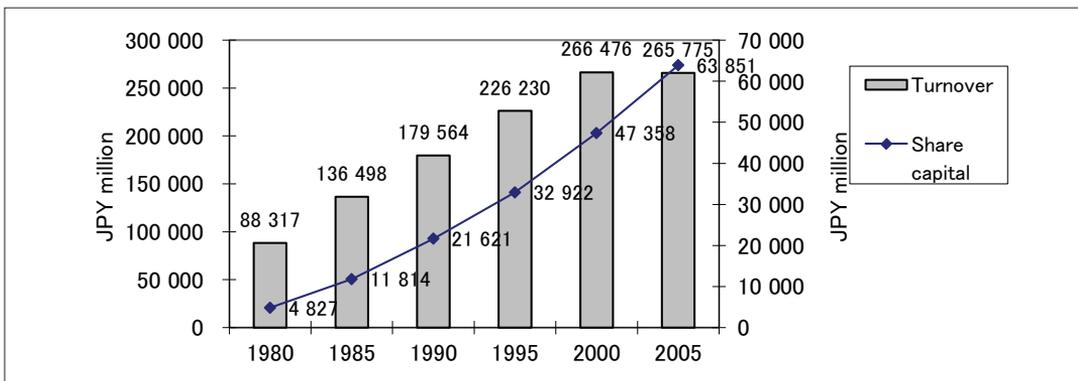
As such, co-ops have grown both in membership and business volume through expanding the scale and scope of operations and encouraging member's participation. Through these activities, they have established their own identity as user-led, multi-stakeholder co-ops seeking to establish health-oriented communities.

<sup>18</sup> Hino, S. "Gendai Iryo Seikyo Ron" in *Gendai Seikyo Ron no Tankyu* ("On Contemporary Medical Co-op" in *Toward Contemporary Co-operative Studies*), Co-op Publishing Inc, 2005; *Chiiki kara Iryo wo Tsukuru* (*Creating Health from Communities.*), Shin Nihon Shuppansha, 2009.

<sup>19</sup> Tokyo Medical Co-op set up by Dr. Inazo Nitobe and Dr. Toyohiko Kagawa as the first medical service society in 1932. can be one of examples but it had withdrawn from the JCCU.



**Fig. 5** Growth of health co-ops and membership  
Source: HCA Statistics



**Fig. 6** Growth of health co-op's share capital and turnover

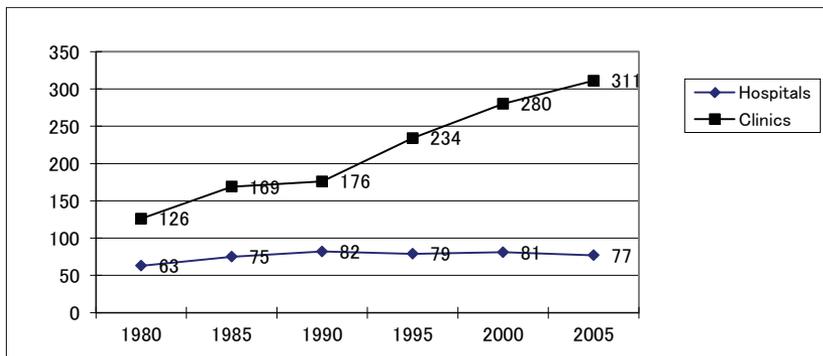
**CURRENT STATUS OF HEALTH CO-OPS**

According to the HCA Statistics in 2009, there were 115 health co-ops in Japan. They are referred to as both ‘medical co-op’ and ‘health co-op’, but there is no significant difference. The number of co-ops has recently stagnated, since some co-ops have merged into larger entities. The total membership has nearly tripled in the past two decades and now exceeds 2.7 million. There are no statistics on member’s age, but the average age is estimated to be over 60 years of age.

Member’s share capital investment totals JPY 72 billion. Investment has grown even faster than membership, since co-ops succeeded in persuading members to invest more to build co-op hospitals, clinics or welfare facilities. The share capital per member averages JPY 26,400. Until the 1980s,

a financial instrument called the ‘co-op bond’ was widely sold to members, but since it had no legal backing, the HCA asked co-ops to stop selling it and instead to encouraged members to invest share capital.

Co-op’s turnover amounts to JPY 296 billion, which is estimated to account for 0.8% of the national medical expenditure. From this, medical care accounts for 83%, while the rest comes from long-term care. Health co-ops run 78 hospitals with 12,460 beds, 344 medical clinics, 45 dental clinics and 201 visiting nurse stations. Recently they were also actively involved in providing social services, which is rapidly expanding. They run 23 health facilities for the elderly, 184 home help stations and 327 day-care centers. Some co-ops have set up social welfare corporations to run nursing homes for the elderly, while others operate fitness centers and preschools targeting the younger generation.



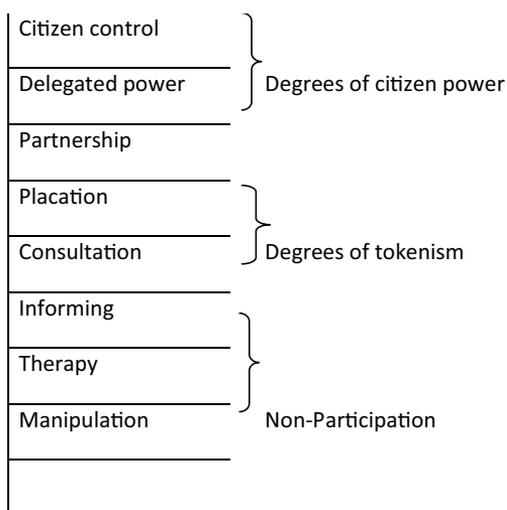
**Fig. 7** Growth in health co-op's facilities  
 Source: HCA Statistics

The HCA provided primaries with various services including: publication of monthly journals and documents, statistics and management guidance, education and training, and public and international relations. In 2010 the Japanese Health and Welfare Co-op Union (HeW Co-op Japan) was established as a full-fledged national federation and became a corporate member of the JCCU.

### HOW TO EVALUATE HEALTH CO-OP'S INITIATIVES FOR ENHANCING CITIZEN'S PARTICIPATION

How are health co-op's initiatives to enhance citizen's participation in health care evaluated? First of all, it is important to locate co-ops on the ladder of participation proposed by Ahnstein. To avoid confusion or rhetoric on citizen participation, she presented a typology of eight levels of participation on a ladder pattern with each rung corresponding to the extent of citizen's power in determining the end product as illustrated below.<sup>20</sup>

Health co-ops provide not only information and consultation to users, but also various opportunities for them to learn and conduct self-monitoring of their own health conditions. They seek to establish a partnership between users and professionals to improve the quality of service delivered through various channels. The users may have delegated power if they are elected as delegates to the annual general meeting or on the board, where they have a clear majority of seats. But this does not mean that lay board members representing user's interests can exercise real power of control, which is neither possible nor desirable; inputs from both users and professionals are equally necessary. Rather health co-ops seek to establish multi-stakeholder govern-



**Fig. 8** Eight rungs on a ladder of citizen participation

ance involving users, providers and managers in decision making of crucial matters.

The co-production perspective can be used as another criterion for evaluation. Pestoff elaborated on this perspective as the key concept for citizen participation in the delivery of public services.<sup>21</sup> Based on an extensive review of literature since the 1980's and European comparative studies on childcare provision, he argues that co-production is noted by 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 the voluntary efforts of individuals or groups to enhance the quality and/

<sup>20</sup> Ahnstein, S.R., (1971) "A ladder of citizen participation", *Journal of Royal Town Planning Institute*, April 1971.

<sup>21</sup> Pestoff, V. A., *Beyond the Market and State*, Ashgate, 1998, pp.98-102.; *A Democratic Architecture for the Welfare State*, Mittuniversitetet, 2007, pp.155-176.

or quantity of services they receive. In complex societies there is a division of labor and most people are engaged in the full-time production of goods and services as regular producers. However, consumers may also contribute to the production of goods and services as consumer-producers. The sweeping welfare reforms or ‘contracting out’ of public services to private for-profit and non-profit organizations, since the 1990s, opened up a new perspective on co-production. Now services publicly funded, but provided by citizens, can both substitute and complement the functions of regular producers where professionals continue to play a key role in their core areas of competence, while citizens can assume some roles not considered as core functions. Thus, while the professional staff at parent childcare co-ops takes responsibility for the pedagogical contents of services, parents assume responsibility for the maintenance and management of childcare facilities.

Pestoff evaluates that health co-ops actively involve their user-members in the health care process as agents of change, which facilitates more effective collaboration between users and providers towards the common goal of enhancing citizen’s health and quality of life, thus making users co-producers of their own health care. He also points out that they are governed as multi-stakeholder organizations, thus promoting democracy in two different ways; first by bringing greater parity into the asymmetric relation between users and providers and second in the democratic governing of the organizations. He even suggests that the Japanese experience could serve as an inspiration and model for democratizing medical care elsewhere in the world.<sup>22</sup> Thus, the Japanese health co-ops seem best fitting to the co-production perspective. As a matter of fact, they are primarily user’s organizations in which the voices of users should dominate, but their multi-stakeholder character provides a platform by which both users and providers can collaborate to attain the common goal of promoting and recovering citizen’s health.

Finally, the capability approach can be used in evaluating the third sector’s initiatives in health care. It is a conceptual framework proposed by Amartya Sen who argues that the well being of a person should be measured in terms of what a person can do and can be, each of which is called “functioning,” and the set of vectors of such functioning is called the “capability” of the person. Sen insists that equality should be sought in the space of capability. Capability indicates a range of what a person can do and, in this sense, the extent of free-

dom that the person enjoys. Therefore, if development is redefined in terms of capability, it means the way towards the freedom of people.

“The capability approach to a person’s advantage is concerned with evaluating it in terms of his or her actual ability to achieve various valuable functioning as a part of living. The corresponding approach to social advantage – for aggregative appraisal as well as for the choice of institutions and policy – takes the set of individual capabilities as constituting an indispensable and central part of the relevant informational base of such evaluation”<sup>23</sup>

Sen’s idea of capability was highly influential in the development policies and incorporated into the construction of the United Nation’s Human Development Index. But this approach can be applied to the study of welfare state reform in affluent societies. Martha Nussbaum has advanced this approach by framing ten capabilities to be supported by all democracies.<sup>24</sup> Amongst others, *Life* capability means being able to live to the end of a normal human life, not dying prematurely or before one’s life is so reduced so as not to be worthy of living, while *Bodily Health* capability is to have good health, to be adequately nourished and treated. These are the fields where citizens should have capabilities for enhancing their quality of life in the overwhelming power relations dominating the health care system. Health co-op’s initiatives illustrated here can be seen as an effective way to enhance citizen’s capabilities.

## CONCLUSION

In every country, health and social care are bound by public policy and regulations since it affects people’s lives. In Japan it has been under the strict control of the Ministry of Health, Labor and Welfare, which regulates a wide range of matters including licensing of professionals, incorporation of service providers, and the prices for services and drugs. Doctors, for the most part, are organized under the Japan Medical Association, which has great influence in public policy as one of the strongest pressure groups, while users have not been well organized and their rights and interests have been

<sup>23</sup> Sen, A. “Capability and Well-being”, *The Quality of Life*, edited by M. Nussbaum and A. Sen. Oxford: Clarendon Press, 1993. p.30.

<sup>24</sup> Nussbaum, M., *Women and Human Development: The Capabilities Approach*. Cambridge: Cambridge University Press, 2000.

<sup>22</sup> Ibid. pp.151-154.

largely neglected. Even in heavily regulated markets, providers could make money from rent seeking while users had to swallow incurred costs.

Under such circumstances, health co-ops offer a unique experience combining user's participation and professional expertise to reduce problems associated with asymmetric information. They are empowering consumers through learning and participation and taking on the challenge to create net-

works for health promotion, and medical and social care in communities. At the same time they are facing such problems as how to maintain financial soundness, how to recruit professionals, and how to establish an appropriate governance structure involving multiple stakeholders. In this context they deserve to be investigated in more detail as a viable model of a participatory social enterprise.

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# NEW PERSPECTIVES FOR CONSUMER CO-OPERATIVES IN PUBLIC SERVICES

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## INTRODUCTION

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The process of liberalization and deregulation of public services has brought to our attention the debate on the organizational form of companies operating in these sectors. Usually, this debate has focused on the dichotomy of public-private for-profit businesses. Another possible alternative is represented by co-operatives and non-profit organizations. This paper deals with consumer co-operatives and those organizational forms that are characterized by the involvement of consumers in the supply of services through their participation in the management of these same services. In other words, the main aim of this paper is to spark a debate on this form of organization. Consumer co-operatives can be defined as users of a service that join together in order to meet their needs mutually. They are an alternative model to the private and public provision of local public services. So, the process of liberalization and deregulation could be a new field of development for the co-operative movement, and at the same time an opportunity for consumers themselves.

First, the paper will demonstrate how the concept of consumer co-operatives in public services could be similar to the one of social enterprise, also through the concept of community co-operative. Second, a review of the economic literature on the involvement of consumers in the provision of public utilities will be presented with the aim of outlining advantages and disadvantages of this form. In particular, Hansmann's work will be examined as well as the work of economists who came after him and contributed to a better understanding of consumer co-operatives. Third, the paper will give a general overview of consumer co-operatives in public services in Italy in order to understand this phenomenon. This overview will also include some general remarks drawn from case studies. Finally, some general data are provided on consumer co-

operatives in public services in the United Kingdom, Spain, Germany, France and the USA.

## SOCIAL ENTERPRISE AND CONSUMER CO-OPERATIVES IN PUBLIC UTILITIES

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In many ways, consumer co-operatives are similar to social enterprises. Therefore, the first step is to see how the two concepts are connected to each other. However, there is no single definition of social enterprise. According to Kerlin (2006), in Western Europe it is possible to identify two trends in trying to define social enterprise: one that seeks to underline the attempts by firms to improve their social impact in their production activities (this refers to both non-profit and for-profit organizations), the other definition includes in its analysis only organizations belonging to the third sector. The latter comprises the contribution of the EMES network. In the following paragraphs, the ideal-type designed by EMES is considered first and then how this ideal-type is related to some definitions in the literature is shown.

The EMES network has designed an "ideal-type" that can summarize the main features of new entities created over the years within the third sector. However, at the same time this can also be used to analyze existing organizations (Defourny and Mertens, 2009). In order to consider an organization as a social enterprise, it is not necessary that all of the following elements should be present, but these elements can be used to determine whether the analyzed entities can be treated as a social enterprise or not. This "ideal-type" developed by the EMES Network, consists of two dimensions: the economic-entrepreneurial and the social dimension. The first dimension concerns the presence of the following criteria:

- a continuous and professional production of goods and/or sell of services,
- a high degree of autonomy (with regards to establishment and management),
- risk bearing,
- a minimum amount of paid work (besides volunteers and users).

In order to identify the social dimension, five criteria have been proposed:

- the goal pursued is to produce benefits for the community as a whole or for disadvantaged groups,
- be a collective initiative,
- a decision-making power not based on capital ownership,
- ensure wide participation in decision-making,
- a limited profit distribution.

These two dimensions proposed by EMES can be found also in many contributions in literature. The social enterprise is considered as an entity that blurs the boundaries between private for profit and non-profit sector (Bull, 2008). According to Allan (2005), the term social enterprise is an umbrella term that encompasses various forms of organization (development trusts, credit unions, social firms, co-operatives, etc...) that, despite these differences in the legal form, have three common characteristics: they are enterprise-oriented (in the sense that these organizations produce goods and services for a market, focusing on sustainability from the economic point of view and seek to achieve positive economic results), social aims (pursuit of social objectives such as creating job opportunities or supplying public services), social ownership (in the sense that they are autonomous organizations in which governance and ownership structures appear to be characterized by the participation of stakeholders, such as consumers/users). When comparing these characteristics of social enterprise to the two dimensions proposed by EMES, the first feature can be categorized in the economic and entrepreneurial dimension, while the last two in the social one. Often the concept of social enterprise is related to stakeholder democracy: they are autonomous organizations whose aim is to bring benefits to the community, they carry on shared goals and are characterized by the fact that the right to participate in decision making is not based on capital ownership (Bull, 2008). This could be comparable to the social dimension proposed by EMES. Haugh (2006) defines social enterprise as a collective term within which are covered by

a number of organizations (in the sense that they can take different legal structures) operating in order to achieve social goals. These organizations seek commercial solutions in order to achieve social aims and reinvest the results for the benefit of the community. Haugh (2006) considers community enterprises as a specific category of social enterprises. These are characterized by the fact that they involve local people in management, bringing local knowledge to the creation and management of non-profit organizations that are directly accountable to their local community. The concept of community enterprise is close to the concept of community co-operative. This could be considered the element that unites the concept of social enterprise and consumer/user co-operatives. The contribution of Mori (2010) shows the link between co-operation and general interest that goes beyond the traditional idea of co-operation designed to satisfy particular interests of vulnerable segments of society and shows how the concept of "traditional" co-operation could be considered under a different perspective that leads to social co-operation and social enterprise. In this sense two key definitions are provided: community co-operative and general interest. The first is defined as "democratic self-organization of citizens that aims to provide themselves with goods and services of general interest for the community" (Mori, 2010:159) (translation by the author). It is part of the broader category of users co-operative. The public interest is defined as an interest that goes beyond the interest of the individuals or single groups. This is realized through the involvement (at least potential) of the community and providing community goods and/or service. These can have both a private and a public nature, but must represent a widespread interest across the community.

A frequently cited definition that combines the aforementioned elements is the one provided by the Department of Trade and Industry. In fact, in order to define social enterprises the following characteristics are considered: pursuing social aims and not profit maximization and reinvesting any surplus in the activity or in the community where they operate (Bull, 2008).

Basically the two previously mentioned dimensions of social enterprise can be found in consumer co-operatives in local public services, especially in the case of community co-operatives. They provide services in the market, carrying out this task in a continuous and professional way. The social dimension can be identified in the activities performed (local public services), management is en-

trusted to members/users and there is an involvement of local people<sup>1</sup>.

## SOME CONTRIBUTIONS FROM ECONOMIC LITERATURE

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This section briefly presents some contributions of the economic literature which analyze consumer co-operatives in local public services and provide an overview about the advantages and disadvantages, strengths and weaknesses of this organizational form. This is not an attempt to cover all the existing literature on the subject, but the goal is simply to provide some ideas regarding this form of organization, starting from some particularly important contributions. All non-economic factors are ignored, such as direct state intervention in various ways designed to facilitate or hinder the formation of co-operatives. Consumer co-operatives operating in local public services can be considered from two perspectives: the origin (in other words the reasons that these co-operatives were created), but also the implications that this organizational form may have on the management of local public services.

Before examining these issues it is necessary, however, to give a brief general introduction of the public services market from both the supply and the demand side. From the supply side perspective, usually public services are natural monopolies (although this is not necessarily true for some stages of some sectors, such as electricity generation). From the demand side perspective, public services are also characterized by low elasticity to price changes. This can be due to the fact that local public services have a low degree of substitution and their aim consists of meeting basic needs<sup>2</sup>. The coexistence of these two features makes the presence of independent regulators very necessary. In turn this implies two categories of costs: those related to the structure of these institutions and necessary to carry out their tasks, but also those connected to the difficulty of implementing an efficient regulatory process due to the presence of information asymmetries between the regulator and the regulated entities.

Due to the characteristics of the local public services market (both on the demand and supply side) and peculiar features of consumer co-operatives, this organizational form seems to be able to seize the opportunity provided by the deregulation of public services. To understand the key factors that affect the role of consumer co-operatives in local public services, it is useful to analyze the contribution of Hansmann (2005). His analysis of consumer co-operatives in local public services is based on the situation in the U.S. Although he focuses on sectors with a significant presence of consumer co-operatives (electricity and telephone services), many findings can be generalized. The consumer co-operatives have advantages in terms of costs of contracting (market power, ex-post market power/lock-in, asymmetric information) and of costs of ownership (costs of controlling management, costs of collective decision-making, costs of risk bearing) compared to investor-owned utilities. With the regard to costs of contracting, public utilities are usually natural monopolies (although now, thanks to technological progress, not all stages of production of these services are natural monopolies). If the company providing the services is in a position of market power, users could then be in a situation of price exploitation by investor owned utilities. According to Hansmann (2005) assigning ownership to consumers themselves can avoid two categories of costs: the private cost due to the higher price charged by the monopolist and the social costs linked to less consumption due to high prices. Therefore the regulatory activity performed by public authorities is necessary. However, this activity implies costs that could be avoided creating utility co-operatives. In this case, consumers' interests are aligned with those of the supplier of service. According to Hansmann (2005) if the tariffs are set too low, companies might have incentives to under invest (or vice versa), or there may be a situation of little incentives to control costs when regulation is not rigid enough. According to Morse (2000) (his contribution is based on consumer-managed water co-operatives), costs of regulation can be avoided if the companies that provide public services are co-operatives: this would be a case of self-regulation. This turns out to be both efficient (it removes all the costs of regulation) and effective (the directors are elected by the users/members who do not exploit themselves through monopoly pricing). Costs due to asymmetric information should be considered from two perspectives: price regulation and quality of service. In regards the former, there is a situation of asymmetric information between the regulatory authorities and regulated firms that tend to over-

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<sup>1</sup> Not all the co-operatives present these features. For example in co-operatives that operate at national level is not possible to find the link with the community. Another special case are consumer co-operatives where members are industrial and commercial users.

<sup>2</sup> Coco G., "Public Utilities", <http://www.dse.uniba.it/Corsi/docenti/Longobardi/public%20utilities.pdf>

estimate costs. This does not happen in the case of consumer co-operatives. With regard to quality, utility co-operatives are likely to set high quality standards, rather than the minimum established by law as the owner and the consumer are the same person. With respect to costs of contracting, Morse (2000) completes Hansmann's analysis introducing externalities. Morse's contribution is based on water services (since they are related to health), but his findings may be generalized to other sectors. According to Morse (2000) many steps in the provision of water services can have an environmental impact: there are therefore externalities, social costs and benefits related to investments and management decisions. In consumer-owned utilities it is likely that long-term investments are made and that decisions affecting the maximization of social welfare are taken. In investor-owned utilities it is likely instead that decisions are taken in a short-term horizon and that the main goal is profit maximization. According to Müller and Rommel (2010), a review of Hansmann's contribution is required in the light of changes occurred in the electricity sector in recent years. In fact, the contribution of Hansmann is based on electricity companies that were fully integrated along the electricity value chain. The contribution of Hansmann is valid for those stages that are a natural monopoly.

According to Hansmann (2005) with regards to cost of ownership, major problems could arise in the divergence of interests between the various types of users (residential, commercial and industrial). According to Morse (2000), problems may arise with regard to collective decision-making. The main interest of investor is profit maximization, while the main interest of consumers/members is the service itself. About this, however, users may have different ideas; so it is necessary it is necessary that the users have a long-term perspective. According to Birchall (2002), Hansmann's approach is incomplete for a number of reasons: monitoring on the part of consumers does not necessarily imply high costs (this is due to modern methods of communication and the relative degree of homogeneity of users), the presence of costs due to the lack of control by consumers, and the benefits of the monitoring carried out by consumers (in other words, participation can create a climate characterized by trust and sharing of information). Birchall (2002) analyzes the costs and benefits of consumer ownership and in particular costs and benefits of the participation of members building upon the contribution of Hansmann. The creation of a consumer co-operative minimizes costs of contracting in the presence of a natural monopoly.

However, this only applies if you do not have to incur costs of governance that are too high. Participation is regarded as the greatest strength of the co-operative type organizations, but also as the main element of weakness because it is costly. A key element is thus the participation of members. This aspect is analyzed by Birchall (2002). It is assumed that the decision to participate or not is influenced by: personal resources (the level of participation is directly proportional to the level of education and income and this could cause distortions) opportunities (for example, an element that can negatively affect the number of people taking an active part in governance could be the merger of small local organizations in regional or national organizations, the lack of publicity of annual meetings and the lack of communication between members), and organizational strategy (e.g. when there are no longer small local co-operatives of the past, this requires an active participation by managers).

In order to complete the analysis, Birchall (2002) examines the theory of incentives for participation in mutual organizations. Individuals are influenced by a combination of both individual and collective incentives. At the individual level, individuals assess the costs and benefits of participation. The first element is the opportunity cost of time and energy necessary to participate. Those who decide to participate must also deal with two types of problems: the possibility of free-riding in the participation of others and the fact that the participation of the individual has no effect on the final result. The benefits can be both material and non-material. As for the former, they are immediate from taking part. The latter, instead, deals with maximizing the return from the business. With regard to collective incentives, they can be broken down into: shared objectives (this can lead people to engage themselves in the management), shared ideas (for example in the case of water services companies this could be environmental issues); a sense of community (this may be an incentive where people care about the situation of the people living in the same community or the people in similar situations).

Also according to Mikami (2003), the presence of market power, is one of the main reasons for the creation of non investor-owned enterprises. In fact it is the intensity of market power, which in turn depends upon how sensitive the input supply and output demand are to their prices, which determines which is the most efficient organizational form. Where there is a monopoly, there are two elements which determine the degree of distortion of the price in equilibrium: the responsiveness of

demand to price changes and the incentive of the monopolist to raise prices. In other words, if demand does not appear to be very sensitive to price changes, the monopolist has an incentive to raise the price above marginal cost since it does not undergo substantial changes in the quantity sold. The distortion in the market will be greater the lower the sensitivity of demand to price changes is. To avoid this, one possible solution would be to not use the product market, and then entrust the property to the consumers themselves.

A further aspect underlined by Hansmann (2005) as a possible obstacle to the creation of consumer co-operatives is the initial investment. In the USA in order to overcome this problem, electric co-operatives generally own distribution infrastructures and purchase all the other services (generation and transmission) from other firms (also co-operatives). Hansmann (2005) also says that the situation of natural monopoly and the stability of demand constitute a sort of collateral for borrowing and lead to a low risk to the users. Hansmann has dwelled on the absence of co-operative utilities in urban centres. This absence is due to the higher costs of ownership related to the high mobility of people (the greater mobility of urban residents, which means that the owner of the property can benefit of the capitalization of investments made in infrastructure, while the costs are a burden on tenants) as well as conflicts of interest in decision-making due to lower homogeneity in the distribution of industrial, residential and commercial users. Another element can be the presence of municipal utilities that have dealt with the provision of local public services.

## THE SITUATION IN ITALY

This section summarizes the result of a research project carried out with the aim to map consumer co-operatives in public services in Italy.<sup>3</sup> The research project focuses mainly on co-operatives whose members are the users of the services, but takes into account also other organizational forms that are not juridical co-operatives. These organizational forms are characterized by features that make them comparable to consumer co-operatives, particularly consumer involvement in governance. The sectors examined are: energy (electricity, gas,

district heating), water and sewage services, telecommunications, waste disposal, and transport. Some elements have emerged from the research. Although consumer co-operatives in public services are not very widespread, they are a heterogeneous phenomenon. In Italy consumer co-operatives can be identified according to three main criteria: economic nature, origins and operational structure. Regarding the economic nature criterion, consumer co-operatives in public services can be classified according to the two following categories: self-production co-operatives and purchasing co-operatives (these are created in order to exploit the advantages related to market power). With respect to origins, consumer co-operatives can be divided into two categories: the ones created before the deregulation of public services of the two last decades ("the historical ones") and the ones created after this process ("the new ones"). Each time period is characterized by different reasons: the former represented the only chance to ensure the services in some areas that were not covered by for profit firms; the latter have been created in order to guarantee better conditions. In regards the third criterion, it is possible to distinguish between co-operatives that have a real enterprise structure and co-operatives managed "voluntarily" by some users, such as the president or members of the board.

This paragraph presents some data about consumer co-operatives in public services in Italy. The sectors where consumer co-operatives have been identified are those of energy (electricity, gas, and district heating), water services and telecommunications. No consumer co-operatives have been identified in the two following sectors: transport and waste disposal. Regarding the latter, the absence of forms of self-organization of users could be related to some inherent features: it is a service considered as impure local public good, it is subject to congestion and it also has an almost complete degree of non-excludability (Petretto, 2009). In addition it is characterized by the presence of positive externalities. Another possible explanation could be the presence of municipalities for waste collection and disposal. The local public transport sector has particular characteristics that may have influenced the lack of consumers co-operatives: the fact that it is both capital-intensive (this is especially for those types of transport that need infrastructures) and labour-intensive; presence of economies of scale (related to the extension of the network and also to its exploitation) that tend to promote geographical grouping (Caron, 2009); there is no coincidence between the community and users.

<sup>3</sup> All data presented in this section are taken from the first report of the research "La cooperazione di utenza nei servizi pubblici locali: un'indagine comparativa" titled "Le co-operative di utenza in Italia e in Europa", <http://www.euricse.eu/it/node/1615>. All data refer to 2009.

In the following paragraph, some data are presented that seek to provide an overview of consumer co-operatives in public services in Italy. These data are taken from the research report "La cooperazione di utenza in Italia e in Europa" and have been collected via questionnaires (although the response rate was high, data are not covering the whole phenomenon in Italy).

The largest presence of co-operatives is in the energy sector, especially in the electricity sector. Thirty-two electric co-operatives have been identified with the following distribution across the country: two in Valle d'Aosta, one in Piedmont, three in Lombardy, three in Trentino, two in Friuli, and twenty-one in Alto-Adige. The first classification criterion could be the period in which they were founded: 71% of these co-operatives were established before the nationalization of electricity industry (before 1962). In 2009 they produced about 340 million kWh (according to statistics published by Terna gross national production for 2009 amounted to 292,641.7 GWh, while the net production 281,107.3 GWh) and have distributed about 250 million kWh. 40% of co-operatives produced less than 5 million kWh and the electricity was produced from hydroelectric sources. They had about 24,000 members and 40,000 users. 80% of co-operatives served mostly residential users and more than half have fewer than 500 members. An interesting aspect is that 88% of cooperates owned the distribution lines, with a total length equal to 1459.5 km. From the survey by questionnaire, some interesting data emerged on management. According to what is stated in the questionnaires, the benefits related to this organizational form are: lower tariffs 84% of cases, better quality of service 16% of cases, better timing in the fault management 32%; patronage refunds 8% of cases, and free services provided to members 4% of cases.

A useful aspect to help one understand this phenomenon is the date of establishment. The range is very varied, ranging from the late 800's to the early twenty-first century. But two dates can be considered the boundary lines: 1962 (the nationalization of the electricity industry) and the end of the nineties (the liberalization of electricity industry). These dates correspond to different reasons: the lack of alternatives before the nationalization, and the search for better service conditions (both in terms of quality and costs) in subsequent periods, especially after the liberalization.

There are several types of consumer co-operatives, which differ in several aspects. Two ratios could be used in order to understand these co-op-

eratives: the members/non-members ratio and the production/distribution ratio. Concerning the former, there are situations in which there is perfect (or almost perfect) coincidence between the two groups (about 20% of the co-operatives on which it is possible to have data). But there are also co-operatives where the members/non-members ratio is less than 50%. According to these data, the presence of two different governance model can be assumed (including among the two extremes many intermediate cases): if there is coincidence we are dealing with a community co-operative, otherwise the management is carried out by a small number of subjects. In regards to the production/distribution ratio, there are co-operatives that produce more than what they distribute (about 63% of co-operatives identified) and vice versa. While the latter focus on the provision of the service, the formers aim at creating a surplus in addition to the primary activity. Another element is that these two models have a geographical characterization: the first model is found mainly in the Alto-Adige, and the second elsewhere.

Another different type of co-operative in the electricity sector is that of co-operatives that join together the users in order to exploit increased market power. An example is Power Energia Società Cooperativa created after the process of liberalization (it was founded in 2007 from an idea of Confco-operative Modena). It is characterised by the fact that all its members have a VAT number.

With regard to district heating, in Alto-Adige many small co-operatives have been singled out, but it has been impossible to confirm whether they are consumer co-operatives, but it is probably true for the majority of cases. In the province of Bologna there are two consumer co-operatives operating in district heating<sup>4</sup>. The gas sector is marginal: only one consumer co-operative has been identified, AEG Società Cooperativa of Ivrea. Its main activity is the sale of gas, but it also has secondary businesses: sale of electricity and district heating supply.

In the outline of consumer co-operatives in public service in Italy, an extra chapter is the water services sector, particularly the management of water systems. 9 cases have been identified. They are all located in northern Italy and the highest concentration was again detected in Alto-Adige. The main activity carried out by the co-operatives is the distribution of drinking water and the users are mainly households (as in the case of electric co-operatives). In 2009, they distributed about

<sup>4</sup> Consorzio Centrale Termica P.E.E.P. Barca- Società Cooperativa a r.l. e Consorzio Centrale Termica P.E.E.P. Fossolo

1,800,000 cubic meters of water through about 360 km of networks. In almost all cases these networks are owned by the co-operatives. The members are about 4,200 and the users about 5,400. Also in this case the main advantage due to this organizational form consists of lower rates (as stated by interviewees). As well as in the case of the electricity sector, there is again the presence of co-operatives whose members are industrial users. Other entities comparable to consumer co-operatives have been identified, although they are not juridically incorporated as co-operatives. These are called "water consortia" (*consorzi idrici*). They are controlled by members-users; usually all the members live in a given portion of a territory, and have the same goals of consumer co-operatives: providing water service with lower charges to users. They are small entities that have survived the Galli Law and the reorganization of the national water system. Estimating exactly the extent of this phenomenon in Italy is not easy, since this term includes different organizational structures that often are not even incorporated as companies.

A peculiar case is the province of Biella, where there is an association (*Associazione di tutela dei consorzi delle acque libere*) for the safeguard of this kind of consortia. This association brings together 29 private consortia, for a total of more than 1400 members, about 65 km of networks and about one hundred spring sources. These are a form of self-organization born from the need to provide drinking water to villages and hamlets scattered throughout the territory. Their objective is to provide quality water service while at the same time trying to control costs. They are generally run on a voluntary basis by local people, and the rationale behind pricing is to cover operational and maintenance costs and also extraordinary maintenance. Due to the structure of the territory, the strength of this type of management is the proximity between provider and user.

With regard to the telecommunications sector, there are two consumer co-operatives: Cutnord Cooperativa (based in Imola) and CUT Cooperativa Utenti Telefonici, based in Prato. Both are active in mobile telephone services and are inter-linked. CUT was established in 1997 after the liberalization of the telecommunications market. The mechanism put in place by the co-operative is very simple: combine purchasing volumes in order to increase the bargaining power and thus obtain more favourable terms.

In order to better understand the phenomenon of consumer co-operatives in public services in Italy, some significant cases have been analyzed.

In the following paragraphs, the whole analysis of these case studies is not presented, but only a few findings that can be drawn from it and which relate to what has been said so far. Co-operatives have been chosen trying to grasp all the facets of a phenomenon that, even the modest numbers in terms of quantity, appears to be characterized by a high inner variability. So different types of co-operatives have been considered: co-operatives that provide the service, but also co-operatives that bring together users in order to obtain better terms or conditions, co-operatives operating in rural or mountain areas and co-operatives operating urban areas, small and big co-operatives, co-operatives that have a long history (in some cases even a century-old) created to provide the service in areas where none had been interested to do that, but also newly established co-operatives related to the liberalization of the utilities market (created in order to offer better conditions of service and the control of tariffs).

A widely varied picture has emerged: this may be an indicator that this organizational form can adapt to very different conditions. Reconnecting what has emerged from the analysis of case studies conducted by Hansmann, it seems unlikely that there is an incentive to under-invest since the members/consumers are concerned about the quality of service (there is also the case of a co-operative that for a long period set rates higher than the market in order to improve its infrastructures). It was also found that basically the interests of members are homogeneous: obtaining a quality service at the lowest possible cost. Some of the co-operatives studied were born in the first half of the last century in order to bring services in areas left out by other companies. These co-operatives have survived several challenges that have occurred, but at the same time are dynamic realities that have been able to seize opportunities offered by both changes due to technological progress and by changes in regulatory environment. Whether in the energy sector or in that of water services, examples of collaboration between co-operatives and local governments have been identified.

It has also emerged, however, that the involvement of members in the management process does not appear to be high. This could be a factor leading to undermining the survival of this organizational form, especially if it is an index of lack of interest among members. In other words, these co-operatives would be destined to disappear when people who are entrusted with the operation will be no longer able to do so. But this aspect also could be related to the fact that very often these co-operatives

operate in small territories and this could work as an element of indirect control. Management is generally composed of members. This can have two kinds of implications: it is composed of users of the service, but at the same time it can be difficult to find people with appropriate skills, especially in the case of narrow membership. A critical point for some of these organizations is that they sometimes rely on voluntary commitment of some members. This combined with other elements (such as the fact that they are located in rural areas which are often subject to a gradual depopulation) could harm their survival. Another challenge facing co-operatives operating in the energy sector is the fact that they have to deal with a changing regulatory environment and often not cut on the particular characteristics of this organizational form (with regard to the electricity market, there has been a recent change with the Authority resolution ARG/elt 113/10).

## THE SITUATION IN EUROPE AND IN THE USA<sup>5</sup>

This section presents some cases of consumer co-operatives in public services in four European countries (UK, France, Spain and Germany) and in the USA. The identification of consumer co-operatives is not easy given the differences from the institutional point of view. So the legal forms that are not properly consumer co-operatives but in some respects can be considered comparable to them were taken into consideration also. The relevant factor is the involvement of the users in the delivery of services. It was not possible to have complete data for all countries; so in this case an idea of the phenomenon is given through a short presentation of some significant cases.

In the United Kingdom there are consumer co-operatives in the energy sector. These are mainly related to Energy4all co-operative, a co-operative founded to promote the production of energy from renewable sources. There are also two consumer co-operatives in the telecommunications sector: Cybermoor LTD (this is a community co-operative in which the organization responsible for the implementation of a project promoted by the government to provide Internet access to disadvantaged communities across the country in order to create new opportunities through internet connections

was transformed) and The Phone Coop (a co-operative that operates at national level and has experienced high growth rates in recent years). With regards to the water services sector, there is a very interesting case: Glas Cymru. This is a non-profit organization that owns Welsh Water and has the legal form of company limited by guarantee. It does not have shareholders, reinvests all profits in the company and, if it is possible, pays an annual dividend (the so called customer dividend) directly in bills. The members are like shareholders of a public limited company, but unlike the latter have no economic interest in the company and do not receive dividends. They have an important role in the governance: ensuring that the company achieves the objective of providing a quality drinking water supply and sewage services at the lowest possible cost. The members are chosen in such a way as to represent a variety of users, but it should not represent a particular category of these at the same time. Members cannot hold this position for more than ten years. In the United Kingdom there is another organization: Community Interest Company. These companies are defined as “a particular type of company designed for social enterprises that want to use their profits and their assets for the public good.”<sup>6</sup> These are not real consumer co-operatives, but if the coincidence occurs between members of the CIC and the community in which these companies operate, in a certain sense it could be considered as a consumer co-operative. There are 11 CICs operating in the electricity sector (working in the trade and distribution, transmission and production) and 36 CICs operating in the transport sector.

Also in Germany, we can find co-operatives in the energy sector. As in other countries, the establishment of electric co-operatives is related to the early stages of the process of electrification and self-organization of users in areas left out of the business for economic reasons. Some of these co-operatives did not survive because of the inability to adapt to the changes in electricity demand. Today we are witnessing a new boost, especially with regard to renewable energy. One possible way to classify co-operatives operating in the energy sector is the following<sup>7</sup>:

<sup>6</sup> Department for Business, Innovation & Skills, “Community Interest Companies-Frequently Asked Question”

<sup>7</sup> Volz R. (2010), “Stand und Entwicklungsmöglichkeiten von Bürgerenergiegenossenschaften in Deutschland”, [http://www.agi-genoforschung.de/files/volz\\_nwt\\_paper\\_2010.pdf](http://www.agi-genoforschung.de/files/volz_nwt_paper_2010.pdf); Klemisch H., Maron H., (2010), “Genossenschaftliche Lösungsansätze zu Sicherung der kommunalen Daseinsvorsorge”, Zeitschrift für gesamte Genossenschaftswesen 1/2010

<sup>5</sup> All data about Europe presented in this section are taken from the first report of the research “La cooperazione di utenza nei servizi pubblici locali: un’indagine comparativa” titled “Le co-operative di utenza in Italia e in Europa”, <http://www.euricse.eu/it/node/1615>. All data refer to 2009.

- *Energieverbraucher-genossenschaften* (they were created by the initiative of users; these have a long tradition in Germany, mostly dating from the 1920s to bring electrification to rural areas; their main activities are sale and distribution of electricity and gas to final consumers; some examples are: Teutoburger Netzwerk Energie eG whose origins date back to the '20s, but also newly established co-operatives as Greenpeace Energy, founded in 1999);
- *Energieproduktionsgenossenschaften* (members produce and distribute energy and revenue from this activity that are distributed among the members, the main difference with the classic Produktionsgenossenschaften is that in this case the members are mostly individuals, an example is Solar-Bürger-Genossenschaft eG in Birstedt)
- *Energie-Erzeuger-Verbraucher-Genossenschaften* (these are integrated organizations; through these entities a community seeks autonomy in energy supply; within this category are the so-called Bioenergiedörfer, in other words bioenergy villages/towns, trying to satisfy their own need for electricity or heat using biomass; the first in Bioenergiedorf Germany was Jühnde)<sup>8</sup>;
- *Energiedienstleistungsgenossenschaften* (this category covers various types of co-operatives operating in energy services that may include counselling, but also functions of purchase and sale). Zentralverband deutscher Konsumgenossenschaften eV joins together a number of new co-operatives operating in the field of electricity distribution, created as a result of the liberalization process. They do not own distribution lines and therefore must enter into contracts with companies who own them.

With regard to France, there are two legal forms that are not properly consumer co-operatives, but they could have common features: *Sociétés d'Intérêt Collectif Agricole d'Electricité* (SICAE) and *Sociétés Cooperatives d'Intérêt Collectif* (SCIC). The SICA is considered as a co-operative. The *Sociétés d'Intérêt Collectif Agricole* (SICA) is defined as "a society composed of two boards and that whose aim is to create or maintain the plant and equipment, or provide services both in the interest of farmers and inhabitants of rural areas without professional distinction". They were designed to provide a framework for electric co-

operatives created by farmers to bring electricity to the countryside. The *Sociétés d'Intérêt Collectif Agricole d'Electricité* adhere to the *Fédération Nationale des Sociétés d'Intérêt Collectif Agricole d'Electricité*, numbering more than 520 employees, 250,000 customers (businesses and residential customers), more than 500,000 residents served by 14600 km of lines (high, medium, low voltage) with 2800 GWh of energy distributed. They serve more than 1,000 municipalities in 18 departments. SCIC are multistakeholder companies. Among the various types of possible members, there should be at least the employees and beneficiaries of the activity, who also could be the users. In order to understand if SCIC could be considered comparable with consumer co-operatives, it would be necessary to investigate each case. SCIC are present in the energy sector (e.g. Enercoop whose activity is the distribution of green energy at national level), transport and waste disposal.

Even for the case of Spain, the most important sector is energy supply: 17 co-operatives with more than 46,573 members in 2009, a turnover of over € 26.34 million and 77 employees.

With regard to the USA, there are utility co-operatives in the following sectors: electricity, water and telecommunications. As in other countries, electric co-operatives were created in order to extend the electrification process to rural areas that did not attract investor-owned utilities. According to Deller et al. (2009) there are about 920 rural electric co-operatives: 854 distribution co-operatives (these include rural electric co-operatives (RECs), public power districts (PPDs), and mutual electric distribution companies) and 66 generation and transmission co-operatives. Rural electric co-operatives are defined as "consumer-owned utilities that were established to provide reliable and affordable electricity by purchasing electric power at wholesale and delivering it directly to consumers" (Deller et al., 2009: 46). Generation and transmission co-operative were created in order to pool purchasing power. There are also 255 telephone co-operatives created to provide quality services at reasonable costs. They are mainly located in rural areas. According to Deller et al. (2009), there are also 3,350 not-for-profit water systems: 2,228 co-operatives and mutuals, and 1,112 associations.

<sup>8</sup> [http://www.bioenergiedorf.de/con/cms/front\\_content.php?idcat=3](http://www.bioenergiedorf.de/con/cms/front_content.php?idcat=3)

## CONCLUSIONS

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According to the contributions of the literature surveyed, due to intrinsic characteristics a consumer co-operative is the organizational form best suited to operate in markets characterized by the presence of particular features from both the demand side (low elasticity to price) and from the supply side (the presence of a natural monopoly). To understand if the co-operation of users may or may not represent a valid alternative for the provision of local public services and then provide an opportunity for both users and a new field of expansion for the co-operative movement, some considerations must be taken into account. Many of the co-operatives studied were created in the past in the presence of particular conditions (e.g. absence of competition and lack of regulation, whose costs mainly affect small scale organizations). At the same time, now you can present new opportunities thanks to technological progress and deregulation of utilities. The modest presence of consumer co-operatives in local public services does not necessarily lead to consider the existing co-operatives only as exceptions. Over the years, electricity and water services have

experienced reorganization processes imposed from the outside: on the one hand, the nationalization of electricity with the consequent creation of ENEL and on the other hand the creation of the ATO Authority. Therefore, the low rate of incidence of these organizational forms cannot be considered as a sign of the presence of elements that make consumer co-operatives unsuitable to operate in these sectors. Anyway, this is an organizational form that has elements of weakness, but also of strength. The key elements that should be analyzed in order to understand the development prospects of consumer co-operatives are the following: the ability to deliver services in a safe and reliable way, while containing costs at the same time, and the ability to adapt to future requirements (adapting to the evolving regulatory framework, capacity to keep pace with the users' needs). In determining whether consumer co-operatives can actually be a viable alternative in the provision of local public services, a key element could be the presence of obstacles in the legal environment where they operate (e.g. certain law provisions or regulatory requirements that do not take into account the peculiar characteristics of this organizational form and therefore appear to be onerous).

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# NEW METHODS TO MONETIZE THE IMPACT OF SOCIAL CO-OPERATIVES: VALO.R.IS. EMPIRIC RESULTS FROM THE FIRST APPLICATION

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One of the greatest challenges of Social Co-operatives is related to the possibility to evaluate their results, by defining an economic value of their actions. The VALO.R.IS. Method has been studied to fill this gap for Work Integration Social Co-operatives (WISC) that grant job to disadvantaged people, normally excluded from the labour world. WISCs often carry out jobs for Public Administration that recognizes the social value of their activities. In this light, it is important to demonstrate that P.A. is not only receiving quality services, but it is saving an important quantity of money by collaborating with WISCs that hire people who – instead of working – would require assistance, social or sanitary public services.

VALO.R.IS is a business model that allows WISCs to evaluate autonomously and yearly this value.

After having presented the model and its functioning, the paper presents the result of the first VALO.R.IS. application on 6 WISCs of Brescia Province, in the north of Italy. Brescia is the most important province in terms of quantity of WISCs in Italy, the economic value they create for Public Administration is relevant, the results of the paper will be utilized from the WISCs in managing relations with their public stakeholder.

## FRAMEWORK AND HYPOTHESIS

The present research focuses on a specific kind of co-operative: the work Integration Social Co-operatives. The WISCs operate in several industries (agricultural, services, manufacturing, etc.), generally without any profit goal and in a social way: by employing disadvantaged people together with not-disadvantaged workers. WISCs are enterprises

which mission is to give a job to people who are normally excluded from the labour market. A worker is disadvantaged as to labour market when he has some characteristic that makes him less productive of workers who haven't it. The main cause of disadvantage is obviously the physic or psychic disability, even if could be defined "disadvantaged" who can do less tasks than other people (alcohol or drugs addicts, prisoners subject to alternative measures, etc.), having a reduced employment's capability (Stern, 1996). From the labour market point of view, the activity carried out by WISCs is different from regulatory or ameliorative measures, because WISC do not try to create position for disadvantaged people in traditional enterprises, but in new firms that train and occupy them temporarily or standing. Moreover, WISCs are different from substitutive measures, thanks to their entrepreneurial nature and for the aim to lead workers to be fully productive (Borzaga, 1999).

Social Co-operative operate by following the principles of democracy, solidarity and participation that are at the base of all the co-operative firms. In Italy WISCs are key partners for the development of an integrated and inclusive Welfare system. The State and Public Administration generally recognize the value of these companies, providing them tax benefits, government grants and the ability to perform public works without having to compete in tenders (Law 381/91). On the other hand, WISCs cannot pursue any kind of subjective profit, they must employ disadvantaged workforce at 30% of total employees and they have to follow specific programs to help disadvantaged people in the recovery path. The classes of disadvantage previewed by Italian law are five: disabled, mentally impaired, drug/alcohol addicts, prisoners and minors in working age. Only for these classes

of subject WISCs can obtain some subsidies or tax exemption. WISCs operate in the private capitalistic market with specific values and principles and compete with private for-profit companies; therefore they must offer high quality services and products. By placing side-by-side disadvantaged and not-disadvantaged workers, WISCs are important integration tools in order to reduce inequality and disparity between people. By operating on the market, WISCs nourish the entrepreneurship capability of people normally excluded from the labour world and, often, from the society.

The economic crisis that has been influencing the economic system in the last years is a great damage also for WISCs. Not only for the general market situation (incomes' reduction, unemployment's growth, etc.), but also for the welfare cuts that most of the European countries is putting into practice. For a WISCs this means the reduction of an important source of revenues, often the main one, making it difficult or impossible to ensure decent jobs for disadvantaged people.

The rising question from the WISCs management is the demonstration of the value they are producing for the Public Administration. WISCs want to show to P.A. that the reduction of jobs' commission will be counterproductive. From a purely economic point of view, in the short term the reduction of jobs' commission to the WISCs can produce monetary savings for the P.A., but in the middle/long term it would mean more expenses for social/health/sanitary public budgets. Indeed the disadvantaged would need more attentions and care and, if not at work, they would spend more time in public structure, they would ask more help to public social assistants and they could not benefit from the therapeutic consequence of the job.

For this reason, the aim of the research is to present and test an evaluation tool for WISCs in order to let them demonstrate the value created and distributed to Public Administration and therefore to the whole community. The name of the model is VALO.R.IS.<sup>1</sup> and it is based on the following assumptions.

The savings guaranteed for the Public Administrations are mainly due to the insertion of people whom, if not employed, would be supported by

public monetary interventions. The job offered by WISCs becomes a social integration tool, but also a way to get important saving for P.A. that reduces social and sanitary intervention. Starting from the literature on the matter and through the cost/benefit analysis, the research shows a management instrument, based on a brief-period analysis (the year), useful to complete the accountancy system of the WISCs. For a WISC it is important to demonstrate not only the economic result, but also the quality of its services to customers and the efficacy of the insertion process to the P.A. and the community. Moreover, WISCs need to show if it is convenient for the P.A. to grant subsidies and to furnish works to them, because WISCs' absence would mean "rising costs" for public budgets. In the creation of the model I involved a sample of 12 Italian WISCs, afterwards I tested it on 31 Italian WISCs from the Brescia province, in this paper 6 of these results are presented.

## METHODOLOGY AND SAMPLE ANALYSED

The methodology used for defining VALO.R.IS is based on the cost-benefit analysis: rules designed to guide choices between alternatives. In this case, the considered WISCs want to assess their economic importance for the community, in terms of greater revenue and lower expenditure of the Public Administration and in terms of lower collective actions in support of the disadvantaged. The intention is to demonstrate empirically the value created for the PA.

As for the cost-benefit analysis, it compares the sum of benefits by subtracting the sum of costs due to a specific choice. In this case, the costs and benefits are related to the presence of a WISC that integrates specific subjects in the labour world.

To define the variables of costs and benefits I considered studies on the same issue (Marocchi, 1999; Maree, 2005; Jadoul, 2000), with the substantial difference that they were aimed at an external evaluation on the medium term, thus enabling it to assess the benefit created by all the WISCs for a territory, an area or a country. In this case VALO.R.IS is based on firm variables, calculated year after year and collected from internal sources. In order to identify information needs and data available in the company I involved in the process 12 social entrepreneurs. I sent to them the cost-benefit analysis' model assumptions, asking their opinion on the feasibility and data traceability

<sup>1</sup> VALO.R.IS. has been created and developed by Elisa Chifari in the text "Work Integration Social Enterprises and value creation: evaluation models" (*Le imprese sociali di inserimento lavorativo e la creazione di valore: modelli di valutazione*), Università Cattolica del Sacro Cuore, PhD Work, XXII cycle, Academic Year 2008/2009, Milan. DOCTA Archives <http://tesionline.unicatt.it/handle/10280/752>. 

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ty. Collected the responses, I revised the model and resubmitted it to the entrepreneurs. After further minor amendments, it was made definitive. I conducted other interviews with the representatives of P.A., from the heads of Local Sanitary Firm (ASL) to that of Department on Work Integration (NIL), which performs activities related to a specific target (the psychosocial rehabilitation) compared to the overall project on the person. I presented to the P.A. Representatives the model in order to detect weaknesses or areas for improvement. The result, defined with the participation of different stakeholders, is VALO.R.IS.: a business tool that the individual firm can have, understand and easily use year after year, as a means of self-assessment and communication to external stakeholders.

## THE MODEL VARIABLES

Starting from the literature on the issue (Chiaf et al., 2009; Marocchi, 1999; Maree, 2005; Jadoul, 2000), I found that the economic effects of WISCs on public budget are:

- Benefits for public budget:
  - Taxes on revenues, paid by disadvantaged workers;
  - VAT produced by disadvantaged workers;
  - Avoided Public expenditure due to the improvement of living conditions of the persons reintegrated: health and social services, personal minimum income, education, security etc.
- Costs for public budget:
  - Tax exemption granted to WISCs;
  - Subsidies or contributions guaranteed by Public Administration to the WISCs that reinsert people at work.

In this light, I adapted the variables on the analysed context, considering which kind of tax exemption, rate tax, contributions or subsidies are granted to WISCs of Brescia Province, one of the most important Italian areas as to WISCs presence.

Moreover, through the dialogue with the WISCs' entrepreneurs and the P.A. leading personalities, I found a way to calculate the cost for the P.A. and for the society of a jobless disadvantaged subject, based on the monthly amount of the "minimum" pension granted by the State.

The Cost-Benefit calculation I created is:

*Cost of a jobless disadvantaged subject*

$$(VAT - STW - TEW) + Disadvantaged * \{ [TPI + SAP + (MVI - EPW - IDP)] - [COS + STP] \}$$

*(Cost-Benefit for the whole organization) + (Cost-Benefit for each single disadvantaged integrated at work)*

**VAT:** VAT created by total disadvantaged employed at WISC

**STW:** Subsidies to WISC, granted by the Public Administration to the whole organization

**TEW:** Tax Exemption to WISC, granted by the Public Administration

**TPI:** Tax on Personal Income

**SAP:** Saving on Alternative Position of subject. Because of his job, the person does not use (or reduce his use) Welfare Structure: hospital, therapeutic community, mental hospital, prison, etc.

**MVI:** Minimum Vital Income, as to reference for the cost paid for a jobless disadvantaged subject by the P.A. and the society.

**EPW:** Expenses Paid by the WISC to the subject, as for example daily canteen, medicines, rent, etc.

**IDP:** Interruption of Disability Pension. In Italy, when the subject goes over a certain income limit, he loses the Public Disability Pension, and it means saving money for Public Administration.

**COS:** Contributions on Salaries. In Italy the Public Administration bears the contributions on salaries of disadvantages integrated at work. The contributions are a percentage of the monthly salary.

**STP:** Subsidies to People. In this case I am not referring to subsidies generally granted to the whole organization, but to subsidies granted to the WISC for a specific subject. This is common in Italy for disabled or mentally impaired.

## VALO.R.IS.

VALO.R.IS. is composed by several pages, one about the value created by the general organization and one for each class of disadvantages, as shown in Figure 1. In addition to the classes of disadvantages defined by the Italian Law, in the research I

considered the “not certified disadvantaged”. In this class I collect all the information about people who would be defined disadvantaged according to the European Union definition (COM 2002, 2008) but not according to Italian Law 381/91 and who often finds a job in a WISC (foreigners, single women with children, etc.).



Fig. 1: The pages of VALO.R.IS.<sup>2</sup>

The “WISC” page requires that the Compilers fill in directly the STW (from the financial statement) and the annexes with data from financial statement that permit to calculate directly the VAT and

the tax exemption. The VAT is proportional to the activity carried out by the disadvantaged. Figure 2 shows the scheme to calculate the Cost-Benefit for the whole organization.

	A	B	C
1	<b>BENEFIT</b>		
2	VAT		
3			
4			
5	<b>COSTS</b>		
6	STW		
7	TEW		
8			
9			
10	Result		
11			

Fig. 2: The page “WISC”

The pages on single disadvantage’s classes report the variables required for the model and the way to calculate them. The pages are all the same, but I shared the single kind of disadvantage in order to do some ex-post evaluation. The number in column “A” is related to each integrated person; in order to

preserve the privacy right I did not want to know name of subjects. In the column “O” VALO.R.IS. calculates the result of each page, in order to add them to the result of the WISC’s page. The Figure 3 shows an example of page related to disadvantage’s classes.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	
1				Benefit				Benefit				Benefit	Benefit	Benefit	Cost	Cost
		Contract Level	Income (year)	TPI (% on C)	Worked Hours (year)	Worked Day (year)	Alternative positioning of people (where the subject would be, if he/she was not working at WISE?)	SAP (Worked Day* Daily rate of Welfare Structure indicated in G)	Disability recognized by P.A.	IDP (crossing C and I)	EPW	MVI	COS (% on C)	STP		
2	1															
3	2															
4	3															
5	4															
6	5															
7																
8															-	

Fig. 3: The pages related to disadvantage’s classes

2 In the representation of the model, I have used the general definition of WISE (Work Integration Social Enterprise) instead of WISC, to let it more adaptable to the different country’s request.

The Compiler must fill in the columns underlined by the black square. These are data that WISCs have in their documents, accountancy, statements, reports, etc.

The most complex evaluation is required in the column “G”, in which it is necessary to insert the alternative positioning of people who are working in WISCs. The Social Manager, who follows the recovery path of the integrated subject, must do this kind of evaluation. In the case of doubt (for example: a drug addicts if not at work could be in a community, at home with a family or homeless, etc.) we assumed the situation more favourable for the Public Administration, the less expensive for the public budgets, in the example “at home with a family”. After several meetings and discussion I assumed as “Minimum Vital Income” (column L) the amount of the Minimum Pension granted by Italian Law (€ 516,46 per month), crossing it with the worked day in column “F”.

## THE SAMPLE ANALYSED

The sample analysed is composed by WISCs of Brescia province. In Italy the general Work Integration Social Enterprises operate by the social co-operative form, so they are called Work Integration Social Co-operatives and they follow the rules and the principles of Co-operatives Firms<sup>3</sup>. At regional level, the Lombardy has the largest number of social co-operatives: 1420 to 31.12.2007, about 16% of the national total, including 476 WISCs (called “Type B Social Co-operatives”). In the region, particular importance is the province of Brescia, which positioning is shown in Figure 1.

Brescia counts the 21.85% of Lombard WISCs, nonetheless in Lombardy there are 11 provinces. In the province of Brescia the percentage of employed in WISCs on the provincial total employment (1.67%) is higher than the regional datum (1.32%). It is worth noting the particular composition of the employed in WISCs, highlighting the trend of entries:



Fig. 4: The positioning of Brescia in Italy

- The 24.46% of people with physical, mental and sensory inability employed in the Region is employed in Brescia WISCs;
- The 26.75% of the mentally ill employed in the Region is employed in Brescia WISCs;
- The 35.85% of the drug/alcohol addicts employed in the Region is employed in Brescia WISCs;
- The 33.33% of minors with social problems employed in the Region is employed in Brescia WISCs;
- The 22.53% of prisoners employed in the Region is employed in Brescia WISCs;

In the general Lombard economic system, and specifically in the province of Brescia, WISCs are active partners of the welfare public policies and, on the other hand, the Public Administration operates directly with WISCs granting jobs and activities under specific Convention. At 31.12.2007 in Lombardy there are more than 1,500 agreements between public authorities and WISCs, in areas such as cleaning, park and green spaces maintenance, recycling, maintenance buildings, canteen services, information services, people transport, etc. Moreover, it is important to underline that the Public Administration is not the sole customer of WISCs; they often operate with agreements with profit firms or private subjects.

The WISCs I selected in the test of VALO.R.IS are 31, in the paper I present the results on the following 6 WISCs:

1. BOTTEGA INFORMATICA: IT services to Public Administration;
2. CERRO TORRE: green spaces maintenance, green energy production, renewable energy production;
3. SOLECO: recycling, green spaces maintenance;

<sup>3</sup> 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. The seven co-operative principles, stated by International Co-operative Alliance, are guidelines by which co-operatives put their values into practice: Voluntary and Open Membership; Democratic Member Control; Member Economic Participation; Autonomy and Independence; Education, Training and Information; Co-operation among Co-operatives; Concern for Community

4. COOPERATIVA SOCIALE PALAZZOLESE: gardening, green spaces maintenance;
5. NUVOLA LAVORO: green spaces maintenance, canteen services;
6. LA FONTANA: manufacturing and industrial assembly, recycling.

## RESULTS

VALO.R.IS. was easily compiled by WISCs' managers and the Tables in this paragraph reports the results on 2010

<b>Bottega Informatica</b>	<b>Number of people inserted at job</b>	<b>Value created in favour of P.A.</b>
WISC		-€ 9.853,94
Disabled	71	€ 245.451,31
Mentally Impaired	6	€ 64.350,91
Addicts	9	€ 20.703,00
Not certified disadvantaged	7	€ 38.846,16
	<b>Value created for P.A. in 2010</b>	<b>€ 359.497,44</b>
	<b>Total number of people inserted</b>	<b>93</b>
	<b>Value created per person in 2010</b>	<b>€ 3.865,56</b>

<b>Cerro Torre</b>	<b>Number of people inserted at job</b>	<b>Value created in favour of P.A.</b>
WISC		€ 18.289,40
Disabled	22	€ 113.031,92
Mentally Impaired	7	€ 28.632,93
Addicts	31	€ 41.836,25
Prisoners	3	€ 14.516,54
Minors	2	€ 2.068,68
Not certified disadvantaged	4	€ 13.817,87
	Value created for P.A. in 2010	€ 232.193,59
	Total number of people inserted	69
	Value created per person in 2010	€ 3.365,12

La Fontana	Number of people inserted at job	Value created in favour of P.A.
WISC		-€ 3.696,49
Disabled	19	€ 97.747,68
Addicts	3	€ 13.620,63
Prisoners	3	€ 57.469,21
Not certified disadvantaged	13	€ 14.344,18
	Value created for P.A. in 2010	€ 179.485,22
	Total number of people inserted	38
	Value created per person in 2010	€ 4.723,30

Nuvola Lavoro	Number of people inserted at job	Value created in favour of P.A.
WISC		-€ 2.606,53
Disabled	11	€ 68.314,17
Addicts	2	€ 7.412,58
	Value created for P.A. in 2010	€ 73.120,22
	Total number of people inserted	13
	Value created per person in 2010	€ 5.624,63

Sol.Eco	Number of people inserted at job	Value created in favour of P.A.
WISC		-€ 31.346,30
Disabled	17	€ 63.374,35
Mentally Impaired	4	€ 10.387,15
Addicts	1	€ 3.604,31
Not certified disadvantaged	2	€ 6.618,77
	Value created for P.A. in 2010	€ 52.638,29
	Total number of people inserted	24
	Value created per person in 2010	€ 2.193,26

Cooperativa Sociale Palazzolese	Number of people inserted at job	Value created in favour of P.A.
WISC		-€ 82.028,81
Disabled	26	€ 159.659,52
Addicts	1	€ 1.967,93
Not certified disadvantaged	4	€ 28.632,32
	Value created for P.A. in 2010	€ 108.230,96
	Total number of people inserted	31
	Value created per person in 2010	€ 3.491,32

The first important result is the applicability of VALO.R.IS., the model allow the WISCs to evaluate the saving they are creating for the Public Administration. The different results depend mainly on the seriousness of the considered disadvantages. That means that a disabled who requires assistances, support structures, etc. let the WISC create more value for P.A. than a disabled who have physical problems and who can try to get another job. At the same time, a prisoner who should have been in prison let the WISC create more value than a prisoner who must be at house arrest.

Furthermore, the working period of the disadvantaged influences the results: more days at work means more value created.

Finally, the result is extremely influenced by the general WISC result (that derives from difference

between VAT created and subsidies/tax exemption received) that is often negative. This depends on the subsidies and on the tax exemptions the WISC receives, they can be higher than the VAT produced by disadvantaged workers.

The general result is anyway positive, the average value created per each person inserted at work in 2010 is 3.877,20 €, it is the monetization of the activity carried out by the WISC through disadvantaged participation in the activity and, indirectly, in favour of the public budgets.

The result is really important for the whole WISCs of Brescia province, they have a “milestone” in order to re-negotiate the agreements with the Public Administration.

Some other evaluation is reported here following.

	Total value created	Total n. of people inserted	Average
WISC	-€ 111.242,66		
Disabled	€ 747.578,96	166	€ 4.503,49
Mentally Impaired	€ 103.370,99	17	€ 6.080,65
Addicts	€ 89.144,70	47	€ 1.896,70
Prisoners	€ 71.985,74	6	€ 11.997,62
Minors	€ 2.068,68	2	€ 1.034,34
Not certified disadvantage	€ 102.259,30	30	€ 3.408,64
<b>Total</b>	<b>€ 1.005.165,71</b>	<b>268</b>	

Firstly we have to consider the high number of people re-inserted at work by the activity of only 6 WISCs: 268 people who would have been excluded from labour market in the 2010 have had the possibility to carry out a job. The total amount of value created for P.A. is also interesting: more than a million of euros saved by the public budget, in a period of important cuts and reduction of public expenses. Finally, an evaluation about the classes of disadvantages: the more expensive is the one composed by prisoners because of the high daily cost of the prison. Secondly there are the mental patients: they generally require important degree of assistance, because they can't be fully independent and autonomous.

## CONCLUSIONS AND FUTURE DEVELOPMENT

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The paper shows two interesting results, firstly VALO.R.IS. allows the WISCs managers to evaluate and disclose the economic value they create for the Public Administration and, indirectly, for the whole community. It is a yearly model that utilizes data from general accountancy, Human Resources management, etc. The model is quite precise and not too complicated to compile. Each WISC can charge its administrative and social responsible whit the compilation of the requests. The knowledge of such results is an important tool to better manage the relations with the Stakeholder "Public

Administration", one of the most important in the Italian WISCs panorama.

The paper shows VALO.R.IS. and its components, and also the results that the WISCs can obtain through his utilize. The emerging data are really important in order to demonstrate the primary role that WISCs and, in general, Social Enterprises and Social Economy play in the realization of Public Policies, not only in the terms of reinsertion of people at work and in the society, but also for the economic value they produce in favour of the public budgets.

Considering the average value created per person of 3.877,40 €, it could be interesting to evaluate which would be the saving of the Public Administration in the province of Brescia, in the Lombardia Region and in the whole Italian country:

- 4.237.779,6 € in Brescia Province (data on disadvantaged at 31.12.2007)
- 15.869.379,6 € in Lombardia Region (data on disadvantaged at 31.12.2007)
- 116.862.685 € in Italy (data on disadvantaged at 31.12.2005)

Future developments are twofold: firstly to systematize VALO.R.IS. with a software to let the WISCs fully independent in the drawing up of the evaluation, secondly to enlarge the adoption of the model outside Brescia Province and Lombardy Region, towards the other Italian Regions in which WISCs operate. The goal would be to calculate the contribution of WISCs at a national level.

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## CHAPTER 6

# WHERE TO GO FROM HERE. CONCLUDING REMARKS



# FINDING TRACTION ON A SLIPPERY PATH: TEACHING ABOUT CO-OPERATIVES, THE CO-OPERATIVE MOVEMENT, AND CO-OPERATION IN CANADA

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In 2005, Cheryl Lans, a researcher at the then British Columbia Institute for Co-operative Studies at the University of Victoria, completed a study surveying teaching about co-operative business and co-operative philosophy in Canadian universities. Financed by the Ontario Co-operative Association and the Co-operatives Secretariat of the Government of Canada, her project was designed as an updating of a similar study undertaken by George Davidovic for the Co-operative Union of Canada in the late 1960s.<sup>1</sup> It was also undertaken in hopes that it would stimulate greater interest in Co-operative Studies as a field of enquiry, especially within Canadian universities and colleges.

Her findings were mixed. The main ones were:

- There were more courses on co-operative business management in 2005 than there had been in 1967.
- Some of the management courses were taught outside of business schools, usually in Environmental Studies programmes.
- Even with the growth in the number of courses, though, only an estimated “few hundred” of the 500,000 students attending Canadian universities had “the opportunity to seriously study co-operatives” in Canadian universities.
- There was very little attention paid to co-operatives in the Humanities, Social Sciences, Social Work, and Law.
- There was a “growing opportunity” to emphasize co-operative research through the

development of a large (\$12,000,000) grant from the Social Science and Humanities Research Council that would fund research into the Social Economy, its current and future application in Canada (though she warned that the study of co-operatives could easily get lost in research into the more generally broader field of the Social Economy).<sup>2</sup>

In the years since Cheryl Lans published her study, the research into co-operative subjects has expanded significantly in Canada, but the teaching dimensions have developed unevenly. As in the past, achieving a steady, thoughtful, and incremental approach to teaching about co-operatives, co-operative movements and Co-operation – what some call Co-operative Studies – within Canadian universities has been illusive and too often disappointing. This paper explores that more recent experience, considering what has appeared to have happened in the interval but it also reflects on some forty years of personal effort to expand and deepen teaching about co-operatives in Canada. It is, therefore, somewhat of a personal document, an indulgence perhaps, but hopefully one that is of some use.

There has been significant new research developed out of the large Social Economy project referred to by Cheryl Lans. Currently winding down, it featured over 100 research projects, twenty specifically concerned with co-operatives and another

<sup>1</sup> George Davidovic, *University Teaching of Co-operatives in Various Countries* (Ottawa: Co-operative Union of Canada, 1967).

<sup>2</sup> Cheryl Lans, *University teaching of co-operative business management and philosophy in Canadian universities* (Victoria: British Columbia Institute for Co-operative Studies, 2005), p. 7.

20-30 discussing them to some significant extent.<sup>3</sup> Many of the 300 faculty members and sector researchers (plus some 60 students) involved in that research became familiar with the co-operative model for the first time. The cumulative impact of their growing knowledge about – and enthusiasm for – co-operatives augurs well for the future of research into co-operative organisations and perhaps co-operative thought. Cumulatively, their activities have significantly enlivened the deliberations of the Canadian Association for the Study of Co-operation (which had been established in 1985)<sup>4</sup> and expanded considerably participation in its annual meetings. They also helped in the formation of the Association for Non-Profit and Social Economy Research (ANSER) in 2009<sup>5</sup>; co-operative subjects are an important part of its deliberations and the two organisations collaborate effectively in preparing their annual meetings, which usually overlap and feature joint sessions. The result is that there are increased communications among researchers interested in co-operative subjects and a substantial increase in the number of publications on co-operatives currently appearing, particularly studies addressing practical and immediate issues.

In many ways, though, teaching about co-operatives in Canadian universities remains far from what serious students of co-operatives would like – and significantly less than what is desirable and appropriate. To be sure, there are pockets of teaching success, some continuing, a few that are new. The Francophone universities in Québec<sup>6</sup> and New Brunswick<sup>7</sup> continue to develop important research and to expand teaching activities, primarily at the graduate level, and there is a *Chaire de recherche du Canada en économie sociale* at the Université du Québec à Montréal held by Professor Marie Bouchard;<sup>8</sup> it undertakes considerable research

into co-operatives. The Centre for the Study of Co-operatives at the University of Saskatchewan continues its excellent work in research and in teaching at the graduate and undergraduate levels.<sup>9</sup> The Masters programme at Saint Mary's University has been stabilized and attracts a cohort of engaged and enthusiastic students to its programme each year.<sup>10</sup> It seeks to establish the centrality of co-operative values to the curriculum – an important contribution, given the number of management people from co-operatives attracted to its programme and the almost universal lack of such an approach within Canadian business schools. The recently formed Social Economy Centre at the Ontario Institute for the Study of Education at the University of Toronto engages co-operatives within its research, teaching, and community programmes.<sup>11</sup> A new community development graduate programme at the University of Victoria<sup>12</sup> and an older programme at Simon Fraser University offer courses on co-operatives. The Centre for Community-Based and Co-operative Economy, which replaced the British Columbia Institute for Co-operative Studies (BCICS), continues to foster some research into co-operatives despite a significant change in focus from its predecessor organisation. York University, in collaboration with the Ontario Co-operative Association and Growmart, which have played particularly useful and imaginative roles in building contacts with universities, has launched a very successful and intellectually rich certificate programme in co-operatives. It promises to become a significant focus for both teaching about, and researching into, Co-operative Studies.<sup>13</sup> Across the country, at such universities as Alberta, Saskatchewan, Winnipeg, Manitoba, and Brock, individual researchers undertake their work, though they face the problems of isolation that have plagued scores of co-operative researchers/teachers at Canadian universities for over seventy years, a problem only partly resolved in recent years by the use of computerized communications.

Thus, though it is probably accurate to say that more “co-operative content” is gradually finding its

<sup>3</sup> A report on the 108 projects undertaken through the Canadian Social Economy Research Partnerships is being prepared and will be available by November. Copies can be secured from the author (clunyl@uvic.ca).

<sup>4</sup> See website: <http://www.coopresearch.coop>

<sup>5</sup> See website: <http://www.anser-ares.ca/>

<sup>6</sup> There is research into co-operatives and some teaching at: HEC (the Business School at Université du Québec à Montréal), Université de Sherbrooke, Université du Québec à Chicoutimi, and the Université du Québec à Rimouski.

<sup>7</sup> At Moncton André Leclerc holds a Chaire des caisses populaires acadiennes en gestion des co-operatives and undertakes with colleagues extensive and valuable research on Atlantic Canada co-ops.

<sup>8</sup> See <http://www.chaire-ccgq.uqam.ca/>

<sup>9</sup> See <http://usaskstudies.coop/>

<sup>10</sup> See <http://www.smu.ca/academic/sobey/mmm/mmccu.html>

<sup>11</sup> See <http://socialeconomy.utoronto.ca/english/index.php>

<sup>12</sup> For UVic, see <http://publicadmin.uvic.ca/programs/graduate/mainCommunityDevelopment/mainCommunityDevelopment.php>; for Simon Fraser, see <http://www.sfu.ca/cscd>.

<sup>13</sup> See <http://www.schulich.yorku.ca/NMLP.nsf/docs/Professional%20Education?OpenDocument>.

way into the curricula of various disciplines – it is at a rate significantly slower than one would like; one must continue to wonder if the movement is ever to receive the attention its size, influence, and potential warrant.

Though no recent surveys have been done to update the work of Cheryl Lans, there is no reason to believe that the percentage of students across Canada able to enrol in a substantial course on co-operative institutions and co-operative thought has risen. It may even have declined. Almost invariably, the instructors in such courses are or have been individuals with strong personal interests; in general, they have failed to demonstrate to their colleagues the importance of what they do – or is that their colleagues are too narrowly engrossed to take the time to understand or senior administrators too busy (perhaps otherwise more interested) to recognize the possibilities? The sad fact is that, when co-operative researchers retire or move on, their enthusiasms are not sustained, and they quickly disappear. At best, they are subsumed in other enthusiasms, which usually means that people primarily interested in other kinds of development or approaches marginalize them.

This is not a new situation. Courses on co-operatives began to appear as early as the third decade of the twentieth century.<sup>14</sup> They became relatively common in programmes within agricultural colleges and in Faculties of Agriculture, though they have been declining in number over the last two decades – or they have been mingled into general courses on marketing. Despite the economic influence co-operatives achieved as the twentieth century progresses, Economics Departments have generally ignored them (and continue to do so), except for labour managed firms, many of which were organized as co-operatives, from the 1980s onward.<sup>15</sup> Some of the discussion about this approach to organizing “economic actors” has found its way into some Economics courses, particularly in Labour Economics, but what is particularly unfortunate is that the study of Economics in Canada generally continues to ignore the co-operative movement and co-operative economics in its teaching or research.

The largest concentration of researcher/teachers has emerged within Sociology, especially among sociologists interested in social movements. Even in that discipline, however, the development of the field was truncated to some extent by the scepticism of Marxist Sociologists who maintained the common Marxist critique of the “false consciousness” (in their view) of many co-operative movements and the failure of co-operative scholars to understand “the Iron Laws” of social change and class warfare. That perspective, for example, particularly impeded work on co-operative subjects in Atlantic Canada for some two decades.<sup>16</sup>

Similarly, the study of co-operative history has been essentially a fringe activity among a very small band of enthusiasts within a few universities. It has never been sustainable beyond a single historian in a given department, never an integrated aspect of Canadian or global history in Canadian history departments. The main “new” national business history, the dozen Canadian survey histories, and the numerous provincial/regional histories that were prepared during the 1980s and 1990s, for example, provided little information and almost no informed discussion of the co-operative experience; in some instances, the information they provided is so crafted as to dismiss serious discussion.<sup>17</sup> The only exceptions to this dismal picture are one history of Québec and another of Saskatchewan. This situation is difficult to explain because there was a substantial and growing literature on the subject available when these studies were written. The authors somehow were ignorant of it, discounted it (without comment), or just weren’t interested.

This rather depressing situation, it should be pointed out, is not unusual or peculiar to Canada: one can survey national histories, including those of the United Kingdom, France, and the United States, where strong and historic movements have existed for over a century and encounter similar lacunae. Co-operatives, despite their common basis in important national trends and developments, are consistently omitted in academic discussion of national development, economic or social. Even

<sup>14</sup> George Keen, the General Secretary of the Co-operative Union of Canada from 1909-1945, corresponded with several academics at the (then) Ontario Agricultural College and the University of Toronto, in part about such a possibility during the 1920s and 1930s.

<sup>15</sup> See, in particular, G. Dow, *Governing the Firm: Workers’ Control in Theory and Practice* (Cambridge University Press, 2003). Professor Gow teaches in the Economics Department of Simon Fraser University in Vancouver.

<sup>16</sup> See R. James Sacouman, “Underdevelopment and the Structural Origins of Antigonish Movement Co-operatives in Eastern Nova Scotia”, *Acadiensis*, Vol. VI, No. 1, Autumn, 1977, pp. 49-65, which dominated perspectives on the historical worth of the Atlantic Canada for some 20 years and (intentionally or not) discouraged young researchers in pursuing research into the field.

<sup>17</sup> Graham Taylor and Peter Baskerville, *A Concise History of Business in Canada* (Toronto: Oxford University Press, 1994). The section referred to here was written by Graham Taylor.

where they are prominent and have played significant historical roles, very few historians anywhere pay any attention to them; there are few, if any, countries in which co-operatives are prominent in the historical constructs of national consciousness – and, for the most part, our understanding of nationhood is significantly influenced by our historical perspectives.

Law and Education are two other fields in which co-operatives do not receive the attention they deserve. In many ways, co-operatives tend to be defined by how they are perceived through legal lenses. Formal co-operatives are legally registered organisations, meaning that the ways in which the state defines them and lawyers advise on their structures and operations are vitally important. Unfortunately, though, public servants and lawyers involved with co-operatives in Canada have to learn about them largely “on the job”; as they do so, they invariably bring to that understanding what they have learned about capitalist organisations. The result is that the pressures for homogenisation between co-operative and capitalist firms are strong and persistent. Two of the most important safeguards against this trend would be thoughtful and substantial training in co-operative law in law schools and sustained discussion about co-operatives and public policy in schools of public administration: concerted and informed examination of such important topics as effective democratic practices, the scope and distinctive operations of federated structures, the importance of indivisible reserves, the unique roles of elected leaders, alternative forms of co-operative capital, and the need for accounting practices appropriate to co-operative enterprise. Regrettably, no law school or school of public administration in Canada addresses these issues as they should.<sup>18</sup>

Similarly, most Education programmes (including Adult Education programmes) within Canadian universities are entirely (or, at best, largely) silent on co-operatives as a form or on the historical impact of co-operative thought on education. This weakness is particularly striking given the historical roles played by co-operatives in the Antigonish movement and adult education activities generally.

The picture is not quite so bleak when one considers some of the new interdisciplinary fields of study, notably those concerned with the environment, community development, the solidarity economy, and the social economy; there are some

encouraging signs within Social Work and specialized fields in Economics (for example: Feminist Economics, Social Economics, and Environmental Economics). It may be, too, that recent emphases on community-based research will encourage further research and teaching about co-operatives. If the past is any indicator, though, one should not assume that any of these developments will lead to a sustained, systematic, and cumulative approach to Co-operative Studies. Too few of the enthusiasts in these various new fields and approaches have a deep interest in co-operative thought and organisations. The ideological, individual, and institutional competition within those fields is intense; it will likely continue to be so. There are more prophets than workers. The marginalisation of Co-operative Studies is and will be for the foreseeable future a common and pervasive threat.

What are the reasons for this situation, given the importance of the movement and the growing research base? This paper suggests that some of the reasons can be gleaned by considering the following topics:

- some weaknesses in how co-operative researchers have undertaken their work;
- weak integrated support systems; and
- difficulties in relating to people outside the academy.

*Some weaknesses in how co-operative researchers have undertaken their work.*

Given all the research that has been done, does the low level of teaching activities suggest problems with the kinds of co-operative research that have been undertaken? Are there problems in utilizing that research within the standard or emerging curricula of most universities? Is co-operative research, as currently undertaken, readily available for teaching in most disciplines? If so, why is it not being utilized more frequently and effectively? What, in fact, are the limitations of co-operative research as it is generally undertaken for the development of teaching programmes?

One weakness may be that not enough co-operative researchers attempt often and consistently enough to situate their research within more general literature in such disciplines as Economics, Sociology, Political Science, and History and in such fields of enquiry as the Social Economy, a reason for some of the problems discussed above. Situating co-operative research within the traditional disciplines, however, is by no means easy, for two reasons. First, co-operative research is rarely restricted to one discipline because of its various preoccupations, associations, interests,

<sup>18</sup> Ian MacPherson, *The Law and Co-operation: Synergies and Limitations in the English-speaking World* (The Legal Aspects Forum, October 25-27, 2010, University of Miami School of Law, Miami, Florida. Available from the author.

and uses. Those who study co-operatives can easily (and should) wander into unusual fields, given the norms of their “home” discipline. Second, discussions of co-operatives can always easily be overwhelmed by the dominant interpretations of those disciplines and the most powerful “ways of knowing” associated with them. Most disciplinary-based researchers will have different starting points and they will engage their subjects and themes in different ways; anxious to emphasize their approaches, they can even have vested interests in discrediting those who begin from a co-operative vantage point.

Moreover, to pursue Co-operative Studies in a fully satisfactory way, researchers must start from an understanding of the distinctive nature, ideas, and issues of co-operative organisations, the co-operative movement and, indeed, Co-operation. They then have to demonstrate in a vigorous and explicit way why those perspectives are important to the broader community – how they fit into the issues (particularly the big issues) of the past 200 years and especially the present. Arguably, co-operative researchers often do this among themselves, but they tend to assume many of their most important understandings and to engage only partly and directly the main issues they, in fact, address – they tend to understand them instinctively.

Similarly, many co-operative specialists arguably need to develop a more sustained concern for matters of context. They tend to be very aware of the situations within which co-ops emerge, largely because the origins of most co-ops are typically and powerfully tied closely to the communities of their members. The passions of their founding stages are typically very attractive and, rhetorically at least, abiding: they are embedded in time-specific and prominent pressures for services, economic development, and cultural objectives within specific communities; their origins in working class, rural and ethnic enclaves are typically obvious, frequently pervasive. As they develop, however, co-operatives tend to be less obviously tied to their original communities and sources – especially if they become successful, expand beyond their original bases, and become preoccupied with internal management issues – with the complexities of survival, growth, and transitions.

Studies of co-operatives frequently reflect these patterns well: often the best chapters or sections of books examining co-operatives deal with their formative and stabilizing periods, the heroic stages of early development. They tend to deal less adequately with the contextual realities of subsequent periods, partly because “context” becomes more complex, societies become more diffused,

communication revolutions occur, class loyalties are transformed, and generational tensions become troublesome. It is rarely easy to identify what is important in modern contexts; doing so may well raise issues that contemporary leaders might wish to avoid. It is easier to focus on internal dynamics. In short, much research into co-operatives over the years has tended to have an internal focus. It has been largely concerned with understanding the development of a given co-operative or co-operative movement or it has examined a specific issue of interest primarily to subsets within co-operative organisations (for example: managers, directors, committed members, and co-op developers). To a degree, this emphasis is understandable and useful: for people involved with co-operatives, the preparation of such studies can help meet at least two kinds of needs – explaining a given co-operative or co-operative movement to members, staff, and the public or addressing a specific problem of limited interest to outsiders. For outsiders, though, such studies can seem anecdotal and of limited interest. There can be – frequently is – a serious disconnect.

This institutional focus also tends to undervalue the “movement” dimensions of the co-operative experience. There have always been tensions between institutional interests and movement ambitions. The ideas and visioning of the movement place demands on any co-operative and emphasize that remind co-operators that merely meeting current and limited economic goals is not a sufficient end in itself. The study of the movement, however, tends to lose out as researchers focus on particular aspects or issues within specific co-ops: there is a regrettable tendency to avoid coming to terms with the general ideas of movement. In Canada, for example, as in most (arguably all) other countries, there are traditions of co-operative thought that are poorly examined. Only Alphonse Desjardins and Moses Coody have received much attention as powerful intellectual forces within the Canadian movements, though even more work on them can clearly still be done, especially to situate them more completely within international co-operative theory. A few others (notably Harry Fowler, Father “Jimmy” Tompkins, B.N. Arnason, and Alexander Laidlaw) have been considered to some extent, but much more could be done, especially in analyzing their thought more systematically. There are many others, such as George Keen, W.C. Good, A.B. Macdonald, John T. Hull, Rod Glen, Norm Bromberger, Harold Chapman, and Jack Craig, who have not been considered adequately, their impact never really fully assessed.

Perhaps most importantly, there is a great need to understand better the social base of co-operative ideas, the ways in which the vast bulk of people within co-operatives think about their movements. This is very challenging and it is a weakly pursued approach within the history of ideas, which as an academic field tends to focus on prominent thinkers rather than on the ideas and sentiments of large masses of people. It is a kind of research, however, that is particularly important in a movement that relies on a wide popular base. Historically in Canada co-operative thought has been deeply entangled with various strands of agrarianism, urban working class attitudes, feminist thought, gender relations, regional loyalties, religious belief systems, and adult education; there have been important links to ethnic consciousness and Indigenous knowledge, though these dimensions have been poorly explored; one might even say ignored. The major challenge is to see how co-operative thought has been influenced by these intellectual traditions and social movements without falling into the common trap of assuming that they are minor reflections of them – rather than an alternative set of perspectives and separate organisations reflecting a separate and distinct body of thought.

It is equally important that Co-operative Studies struggle to embrace a genuinely international perspective. Though the “organized movement” can to some extent be seen as an extension of a European or North Atlantic experience (and has frequently been so seen), that approach undervalues the significance of the indigenous origins of much co-operative activity. The legal forms may have been largely derived from the experience of western, northern, and industrialized societies (a negative as well as a positive feature of co-operative development), the roots of co-operative commitments and understandings flow more from local contexts than they do from perspectives imported from other lands. Doing so should include considerable comparative work; from a Canadian perspective, for example, there would be great value in developing comparative studies with national movements in Australia, the United States, and Argentina. There are potentially interesting and important comparisons that might be made regarding specific kinds of co-operatives (energy, new forms of food production, housing and health co-operatives come particularly to mind) as they have developed elsewhere.

The importance of international co-operative research can scarcely be overestimated. The co-operative world, implicitly and often directly, has frequently been framed within an international

context, though the movement has been lamentably weak in developing resourceful and effective international linkages – despite generations of intense efforts by many dedicated people associated with the International Co-operative Alliance and within some national organisations. Researchers can play a significant role in developing and maintaining an international perspective; it is a key aspect of Co-operative Studies, with all that means for cross-cultural studies and what some in the Canadian movement used to call understanding the “big picture”. It is a particularly important perspective to foster though teaching about co-operatives, the movement, and Co-operation.

### WEAK INTEGRATED SUPPORT SYSTEMS

Much co-operative research tends unintentionally to be ephemeral. Each year, hundreds of papers and presentations are delivered at various conferences, academic and co-operative. Most of them are “for the moment”. Comparatively few find their way into print or become readily accessible through online sources. There is a powerful need for a comprehensive resource centre or base where interested people can access easily much of the work that has been done; a place where they can find researchers actively engaged in carrying out co-operative research. Until that is done, the accessible collective memory and comprehended record of co-operative researchers will be shadows of what they should be.

One consequence of this state of affairs is one hears far too often repetitions of research and information that should have been already well known and understood. Beginning students expend considerable energy searching out information that should have been readily available. Casual explorers in the field do not readily identify all the important research that might inform whatever it is that had first awakened their interest – one of the reasons why “outsiders” do not quickly grasp the significance of the field. In short, the literature on co-operatives is not as readily available as it should be – a problem for researchers and a disaster for a movement that is ultimately about ideas as much as it is about meeting needs.

This weak focus is also a key reason why others within the academy have difficulty understanding the importance of developing deeper understandings of co-operatives, co-operative movements and Co-operation. This in turn makes life difficult for people wishing to build careers researching in the field. It makes it difficult to justify allocating what are often scarce teaching resources to courses seriously concerned with them. It contributes to the

problem of building sustained commitment at many universities. It contributes markedly to the problems described in the first part of this essay.

National, regional, and international co-operative research initiatives have made considerable gains in recent years, but they do not yet offer all the kinds of support that co-operative teachers need. There is a need for more strong, refereed journals and presses known for their interest in, and support for, research into co-operatives, co-operative movements, and Co-operation. This is a challenge for all those engaged in co-operative research, one that needs to be met before the teaching field will be well established, one that will require the support and commitment of everyone working in the field. Until that is done, young researchers will not be encouraged as they should be; they will have difficulty becoming established, gaining appointments at universities, and generally building their careers. Even initiatives that are well begun by one researcher at a university will disappear when he or she retires or moves on. Effective and sustainable teaching programmes require strong, obvious, and accessible research bases.

### **DIFFICULTIES IN RELATING TO PEOPLE OUTSIDE THE ACADEMY**

The co-operative sector in Canada has supported significant pockets of research and some teaching activities at Canadian universities. Co-operatives in Atlantic Canada, notably the Acadian *caisses populaires*/credit unions and Co-op Atlantic, have supported the work on co-operatives at the Université du Moncton; local, national, and international co-op organisations have made possible the development of the masters programme at St. Mary's University. The *mouvement Desjardins* has been a strong supporter of university-based work on the co-operative sector and this is reflected in the substantial work undertaken at several universities, but most obviously at the Université du Québec à Montréal and at the Université de Sherbrooke. There is increasing interest within the Ontario co-op sector in the work being undertaken at the University of Toronto and York University. The Prairie co-operatives and the national insurance co-operative have faithfully supported the work at the University of Saskatchewan for over twenty-five years. British Columbian co-operatives, the consumer movement and The Co-operators made possible the creation of the British Columbia Institute for Co-operative Studies (2000-2008) and are continuing to support its successor organisation. The Canadian Co-operative Association has co-op-

erated with several of these initiatives, particularly the Saskatchewan centre, over the years in many different ways.

Most of the work encouraged and sponsored by this collaboration, however, is focussed on research and affects most obviously the work of graduate students. The undergraduate courses devoted to co-operatives, the co-operative movement and Co-operation remain few, scattered, and inconsistent. The vast bulk of students, even in the universities where this substantial collaboration has occurred remain uninformed about co-operatives, the movement and Co-operation. Some portions of a useful base have been constructed, but the broad impact has not been secured.

It can also be argued that the research that has been undertaken remains in some key ways segmented. Aside from the facts that the research tends to be fragmented in the academic silos created by disciplinary ways of knowing within universities – a continuous and significant factor – there is also something of a gulf between academic and sector understandings of the nature and value of research. Like many other commercial organisations, co-operatives tend to have specific and immediate research needs related to marketing strategies, funding issues, technological developments, and human resource requirements – sometimes with understanding shifts within the communities they serve. Such research is rarely cumulative and it is not commonly shared. Academic researchers tend to have interests in longer term and cumulative research interests associated with social patterns, economic restructuring, institutional behaviour, and community development. These differences in emphasis cannot always easily be co-ordinated, especially since research interests within a university tend to be slow to harness, mostly because academic researchers – faculty or graduate students – take on new projects slowly and only after existing research interests have been met. There are difficulties in co-ordination, meaning that the cohesive bodies of information that would be particularly useful for teaching are not always readily accumulated for the purposes of instruction.

Nor are teaching resources readily available. Going back to the mid-1970s, there have been efforts to develop modules for instruction about co-operatives within Canadian high schools. They have had a chequered history, caught between government shifts, sudden curriculum changes, overwhelmed teachers, and a double standard whereby it is acceptable to discuss capitalist enterprise but not co-operatives in the classroom – somehow, doing so becomes special pleading.

There have not been similar efforts at the undergraduate level within universities. For the most part, instructors have had to build their syllabi through searching widely in the scattered literature that exists – and may be available in their libraries. There is a need for more resources for undergraduate instruction – accessible and pointed information on case studies (particularly of nearby co-ops)<sup>19</sup>, theoretical debates, historical interpretations, training possibilities, network development, introductions to co-ops in other lands, and research methods. Providing such resources should not be complex – as long as the sector recognizes the benefits and academic researchers in the common interest transcend their tendency to concentrate largely if not entirely on their own personal and institutional needs (as they are commonly if short-sightedly understood).

A more serious complexity is the extent (and the ways) to which co-operative researching and teaching relate to other forms of economic and social development. The co-operative approach is one of several ways in which communities can develop economically and socially. It co-exists, sometimes collaborates, often competes, with charitable organisations, societies, government agencies, social enterprise, and traditional, culture-based forms of economic and social preservation and development. The competition among organisations derived from these approaches can be (usually are) vigorous. The struggle to gain government interest and support, which is rarely undertaken in a coordinated and mutually supportive fashion, can be (often is) debilitating and counter-productive.<sup>20</sup>

The truth, though, is that no approach is entirely sufficient; all can learn from each other; and cumulatively they represent a potent force that contribute much in different ways to societies all around the world. In Canada, the large Social Economy project mentioned above has achieved some successes: the creation of several important

new networks, the development of some very important research, the attraction of remarkably gifted and able graduate students, the development of some important reflections on public policy, a series of useful joint initiatives directed at expanding public and government interest in the possibilities of the Social Economy and its constituent movements and activities.<sup>21</sup>

The truth, too, is that much remains to be done. Not all people within the co-operative movement are comfortable with inclusion in the Social Economy framework, feeling that co-operatives tend to be included when there is a need for funds but are otherwise passed over when it comes to furthering community-based development – the practitioners tend to be more informed about other alternatives. They are also apprehensive about the continual change within the theoretical base, most recently with the addition of the concept of the Solidarity Economy. The concept of the Social Economy, necessarily vague at its edges, where it endorses and works with new approaches only partly conceptualized or with government initiatives that imply considerable state control, is not easily understood within the rigidities and simplified understandings of the economy common to English-speaking North America. It nevertheless remains an important and promising avenue for co-operatives and co-operative researchers to help advance the idea of a powerful, distinct, but multi-faceted “third sector” which already contributes much – and could contribute much more. It can be a helpful and stimulating way in which to teach about co-operatives, co-operative movement and co-operation – one understands through comparative examinations of similar organisations and efforts as much as through comparisons with investor-driven firms. It is one of the special qualities of Co-operative Studies.

Finally, there are challenges associated with both language and communications. Academics, community developers and co-operative organisations, as with most interest groups, develop their own distinct ways of communicating, first within their groups and audiences, and secondly with the

<sup>19</sup> The British Columbia Institute for Co-operative Studies developed a “Galleria” highlighting a variety of co-operatives in British Columbia. It was an unqualified success, useful for informing students and in fact becoming a model for student research. Unfortunately, the idea has not been adapted by others – at the University of Victoria or elsewhere. See <http://www.bcics.org/resources/galleria>.

<sup>20</sup> See Ian MacPherson and Michael Toye, “Why Staying the Course is Important: Reflecting on the Community-University Relationships Associated with the Canadian Social Economy Research Partnerships, 2005-2011,” in Peter Hall and Ian MacPherson, *Community-University Research Partnerships: reflections on the Canadian Social Economy experience*, forthcoming, University of Victoria e-book.

<sup>21</sup> The relationship between co-operative movements and the Social Economy is an old and interesting one. See Ian MacPherson, “The co-operative movement and the social economy traditions: reflections on the mingling of broad visions,” *Annals of Public and Co-operative Economics*, September/December, 1908, p 625-642, and Ian MacPherson, “Promises and Hegemony: reflections on the social economy and co-operativism”, *Distinguished Speakers Series*, Centre for Co-operative and Community-based Economy, University of Victoria (available from the author).

public. Creating a common language and establishing integrated means of communicating are not as simple as one might assume. Institutional needs and priorities, as well as traditions and self-interest, make it difficult to develop efficient and coherent ways to reach wider audiences and most particularly the general public, even the media. The public face, as a result, tends to be diffused even inscrutable, the movement's nature, extent, and issues uncertain and largely unknown within the wider academy. Teaching more broadly about co-operative, the movement, and Co-operation within universities is a major part of the co-operative quest for a strong and meaningful public voice. It is a challenge when bringing together students from diverse disciplinary backgrounds interested in the field, as people who have taught students from Philosophy, Social Work, Business, History, Literature, Economics, Environmental Studies, Women's Studies, Education and Law in the same class will know. They will also know the pleasure that it can be.

### SOME SUGGESTIONS

The effort to develop a broad and deep teaching about co-operatives, the co-operative movement and Co-operation within Canadian universities is an old and somewhat discouraging saga. It is a particularly frustrating one because of the movement's contributions, past and present, and its future value and potential. More recently, though, important progress seems to have been made at the graduate level, some of it developed through well established programmes, others because of the emergence of new centres and programmes. The test, though, will be to see if this progress can be sustained as research agendas change, university priorities shift, and new funding sources are developed.

Teaching at the undergraduate level, though, remains spasmodic and uncertain except for a few offerings at some Québec universities, Saskatchewan, Moncton and, more recently, York University. It remains almost impossible for all but a very few undergraduates to hear about, let alone study seriously, the co-operative experience. What might be done to change that situation?

Throughout this paper several suggestions have been made, including the following points. They include the suggestions that those who attempt to secure more extensive, sustained, and supported undergraduate courses should:

1. More conscientiously and consistently attempt to situate co-operative topics into the curricula of mainline, traditional disciplines.
2. Seek ways to demonstrate how knowledge about co-operatives can be usefully employed within the emerging new fields of enquiry.
3. Explicitly discuss the ways in which the co-operative model have addressed key social/economic issues in the past or can address them in the present.
4. Pay more attention to the importance of context, especially beyond the formative and stabilizing periods in co-operative development.
5. Address movement (as opposed to co-op institutional) issues thoroughly and continuously.
6. Consider systematically the social basis of co-operatives, co-operative movements, and Co-operation.
7. Embrace international themes more rigorously, especially through systematic comparative analysis across national and regional divides.
8. Encourage reflections on how the co-operative movement might play a greater international role.
9. Help develop *and support* more referred journals devoted to Co-operative Studies. These would be of obviously great importance for courses in universities.
10. *Support* efforts to create the development of a sustainable, diverse, multi-lingual website devoted to Co-operative Studies and linked to other websites that focus on aspects of the field or on specific types of co-operative.
11. Focus on finding ways to integrate some sustainable undergraduate courses within disciplines and/or specifically devoted to Co-operative Studies.
12. Encourage collaboration in undergraduate instruction across universities. Teachers of co-operative subjects could benefit immensely from collaboration and mutual help with others sharing similar, and especially complimentary, interests. It could even lead the creation of a "virtual" department bringing together particularly the now isolated individuals scattered across the country into a cohesive whole able to teach a variety of courses. They could be offered mostly on-line and could be grouped into certificates or diploma programmes.
13. Create special teaching resources for undergraduate instruction: creation of Galleries, case studies, theoretical issues, network development, research methods and issues.

14. Continue and expand engagement with like-minded movements and organisations, such as trades unions, youth groups, Fair Trade, environmental organisations, and women's organisations that understand the importance of co-operative autonomy while recognizing what they can contribute to them and to society generally.
  15. Consider carefully the ways in which information, discussions and debates are framed so that they are accessible and useful to the wider society.
- Not surprisingly, a willingness to collaborate with other individuals (no-one could benefit more from practicing mutuality).
  - A willingness to engage in intra-university and probably computer-based collaboration among educational institutions.

Beneath these suggestions is the belief that researchers and especially teachers concerned with co-operative subjects need to be more forthright and committed to the field of Co-operative Studies as an interdisciplinary, international field of enquiry, one that addresses co-operative issues with its own kinds of understandings and issues, one that situates enquiry critically within co-operative thought and traditions, one that brings together academic and community partners.

Several people have been engaged in considering the nature of this field for the last few years,<sup>22</sup> but it is not widely adopted or espoused. The fundamental contention of this paper is that it is this lack of a "total" approach to the field, a well thought out frame of reference, an understanding of the enormity of the field, and a recognition of its central cohesion that ultimately explains why co-operatives, co-operative movements, and Co-operation are so ignored in the academy. Ultimately, it is the instructors and teachers in the field who must accept the responsibility of changing this situation. In the process it will require from them several commitments:

- Self-identification as specialists in Co-operative Studies.
- Engagement in the strategic development in the field (where are we? Where should we attempt to go? How do we get there?).
- Support for publication activities.

All of these nice words are easily written or said. What they suggest are not easily adhered to or implemented. We live in a perpetually competitive world. The academic structures generally reward well only individual effort. Most of us have been trained essentially in competitive environments. "The war of ideas" is the common metaphor for how academic life proceeds (whether it is accurate, though, is another question). Research is generally funded through competitive application processes. Universities are notoriously poor at working together unless it is obviously in their common and immediate interest. The institutional demands of co-operative organisations can create barriers: for example, the pursuit of Co-operative Studies promises more long-term than immediate benefits; different kinds of co-ops may view the movement differently; and research initiatives may appear to threaten some of the staff already employed within co-operatives. Co-operation among co-operative researchers is not more easily achieved than is the goal of "co-operation among co-operatives" within the movement itself.

In the final analysis, the ultimate challenge for co-operative specialists is to define crisply and coherently what it is that they study and how they study it. They need better to define their field, to provide a clear picture of the nature of Co-operative Studies, and to define themselves as Co-operative Studies specialists, a field of enquiry with every right to exist as a distinct body of enquiry, a field that should be available to most undergraduate students in Canadian (and other) universities.

<sup>22</sup> For fuller discussions of the field of Co-operative Studies, see Ian MacPherson and Erin McLaughlin-Jenkins, *Integrating Diversities within a Complex Heritage: Essays in the Field of Co-operative Studies* (Victoria; New Rochdale Press, British Columbia Institute for Co-operative Studies, University of Victoria, 2008) for a several specialists in co-operative research addressing the possibilities of Co-operative Studies. See also Ian MacPherson, "Some Arguments for Co-operative Studies as an Interdisciplinary, International Field of Enquiry", Paper 191110, Co-operative Research Group, University of Sydney (<http://sydney.edu.au/business/research/co-operatives>) – also available from the author.

## ANNEX 1. THE CONFERENCE SPONSORS

Enterprising Together -project of the Ministry of Employment and the Economy

Finncoop Pellervo

Federation of Finnish Learned Societies

Finnish Cultural Foundation - South Savo Regional Fund

Mikkeli University Consortium (MUC)

FinSERN – Finnish Social Enterprise Research Network

S-group

S-group Suur-Savo

the Cooperative Bank of Suur-Savo

the City of Mikkeli

the City of Tampere

Savonlinja Oy

## **ANNEX 2.** LIST OF MEMBERS OF THE STEERING COMMITTEE

**Chair:**

Director, Professor, Ph.D. (Pol. Science)

**Pirjo Siiskonen**

University of Helsinki, Ruralia Institute

E-mail: [pirjo.siiskonen@helsinki.fi](mailto:pirjo.siiskonen@helsinki.fi)

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Project Manager Niina Immonen, Enterprising together

Professor Iiro Jussila, Lappeenranta University of Technology, Finland

Director of Co-operative Services Sami Karhu, Finncoop Pellervo

Research Director, Professor Tapani Köppä, University of Helsinki, Ruralia Institute

Special Planner Pertti Linkola, Ministry of Employment and the Economy

Professor Salme Näsi, University of Tampere

Director Anne Santamäki, SOK/ICA Board Member

Senior Advisor for Global Social Policy Timo Voipio, Ministry for Foreign Affairs

PR and Press Officer Anne Hytönen (secretary), University of Helsinki, Ruralia Institute

## ANNEX 3. LIST OF MEMBERS OF THE SCIENTIFIC COMMITTEE

### **Chairs:**

Adjunct Professor, Ph.D.  
Tapani Köppä  
University of Helsinki, Ruralia Institute

Research Director, Adjunct Professor  
Hagen Henrÿ  
University of Helsinki, Ruralia Institute

### **Assistant:**

eLearning Coordinator  
Pekka Hytinkoski  
University of Helsinki, Ruralia Institute

### **Scientific committee:**

Associate professor Elena Averijanova  
Northwest Research Institute of Economy and Organization of Agriculture, Russian academy of agricultural sciences / St.Petersburg State Agricultural University, St.Petersburg-Pushkin

Professor Faustine K. Bee  
Principal of the Moshi University College of Co-operative and Business Studies, Tanzania

Professor Sigismundo Bialoskorski Neto  
Dean of University of São Paulo Economic and Business School, Brasil, ICA Latin America Research Committee

Associate professor Jérôme Blanc  
Université Lumière Lyon 2, France

Professor Carlo Borzaga  
President of Euricse - European Research Institute on Cooperative and Social Enterprises, Italy

Professor Rafael Chaves  
Economic Policy University of Valencia, President of the Scientific Commission on Cooperatives and Social Economy of CIRIEC, Spain

Dr. Peter Davis  
Director, Unit for Membership Based Organisations, the School of Management, University of Leicester, UK

Professor Isabel-Gemma Fajardo García  
University of Valencia, Spain

Dr. Esther Gicheru  
Principal of the Kenya Co-operative College, Vice Chair of the ICA Global Human Resource Development Committee

Dr. Lou Hammond Ketilson  
Centre for the Study of Co-operatives, University of Saskatchewan, Canada, ICA Committee on Co-operative Research (ICACCR)

Professor Iiro Jussila  
Lappeenranta University of Technology, Finland

Professor Panu Kalmi  
University of Vaasa, Finland

Professor Simeon Karafolas  
Technological Educational Institute of Western Macedonia, Greece, ICA Committee on Co-operative Research (ICACCR)

Professor Juhani Laurinkari  
University of Eastern Finland, member of the European Academy of Sciences and Arts

Adjunct professor Jaan Leetsar  
Institute of Economics and Social Sciences, Estonian University of Life Sciences, Tartu, Estonia

Professor em Ian MacPherson  
ICA Committee on Co-operative Research (ICACCR)

Professor Virginie Perotin  
Leeds University Business School, Leeds, UK. Associate Fellow, ERMES (EAC7181 CNRS), Université Paris-II France.

Dr. Adam Piechowski  
Director, Cooperative Research Institute, National Cooperative Council, Poland

Professor Dietmar Roessl  
Vienna University of Economics and Business, Austria

Director Gopal N. Saxena  
Indian Farmers Fertiliser Cooperative Ltd., IFFCO Sadan, ICA Research Committee of Asia & Pacific (Chair)

Reader (Ph.D.) Molly Scott Cato  
Green Economist, Cardiff School of Management, Wales, UK

Professor Roger Spear  
Open University CRU, UK, ICA Committee on Co-operative Research (ICACCR)

Professor Yohanan Stryjan  
Södertörn University, Sweden; ICA Committee on Co-operative Research (ICACCR)

Research Assistant Rachael Vorberg-Rugh  
University of Liverpool, UK

Executive President Adrian Zelaia Ulibarri  
Mondragon Research Institute, EKAI Center, Spain

*Track leaders as co-opted members of the scientific committee*

# ANNEX 4. TRACKS AND TRACK LEADERS

## 1. Co-operative diversity and different types of success

### *a) Viability and performance of financial co-operatives*

Professor, Ph.D.

Panu Kalmi

University of Vaasa

### *b) Agricultural co-operatives*

University lecturer , Ph.D.

Petri Ollila

University of Helsinki

### *c) Social entrepreneurship*

General Secretary, Ph.D ,

Chairman of the Finnish Social Enterprise Research Network (FinSER)

Pekka Pättiniemi

Civic Association for Adult Learning

## 2. The role and promotion of co-operatives in a global context

Research Director, Adjunct Professor, LL.D

Hagen Henryö

University of Helsinki, Ruralia Institute

Researcher, M.Sc.

Shimelles Tenaw

Department of Economics & Management

Faculty of Agriculture & Forestry

University of Helsinki

## 3. Shared leadership and membership communities

Professor, Dr.Econ.Sc.

Iiro Jussila

Lappeenranta University of Technology

#### **4. The green economy and co-operative societies**

Reader, Ph.D.  
Molly Scott Cato  
Cardiff School of Management, Wales

M.Sc. (Bus.Adm.)  
Johanna Heiskanen  
University of Tampere

#### **5. Multidisciplinary teaching and research on co-operatives**

Senior researcher, Dr.Sc. (Bus.Adm.)  
Eliisa Troberg  
University of Helsinki, Ruralia Institute

Ph.D.  
Andrea Bernardi  
Nottingham University Business School, China

#### **6. Innovative co-operative solutions (oriented for promoters of co-operatives)**

Executive director, Ph.D.  
Niina Immonen  
Ministry of Employment and the Economy /  
Enterprising together project

Research Director, Adjunct Professor, Ph.D.  
Torsti Hyyryläinen  
University of Helsinki, Ruralia Institute

## ANNEX 5. CONFERENCE PROGRAMME

### Wednesday 24th August

*MUC Campus (address: Lönnrotinkatu 7)*

14.00 – 20.00 Registration

20.00 Get-together Party (*MUC Campus, Unica-building, Lönnrotinkatu 5*)

10.00 – 16.00 Doctoral consortium as a separate programme (closed session)

### Thursday 25th August

*Mikaeli Congress Center (address: Sointukatu 1)*

8.00 – 9.00 Registration

9.00 – 10.00 Opening session

Chair: *Anne Santamäki*, Board Member, International Co-operative Alliance (ICA)

Welcoming words (interpretation into Finnish)

- Professor Pirjo Siiskonen, Vice Director of Ruralia Institute, University of Helsinki, Chairperson of the conference steering committee
- Letter of Support by the President of the Republic of Finland, Tarja Halonen
- Professor Jukka Kola, Vice-Rector, University of Helsinki
- Charles Gould, Director-General, International Co-operative Alliance (ICA)
- Professor Salme Näsi, the Finnish Co-operative Council

10.00 – 10.30 Coffee break

10.30 – 12.30 Plenary session (interpretation into Finnish)

Chair: Adjunct Professor Hagen Henrÿ

New opportunities for cooperatives and social enterprises in the changing landscape of the welfare systems

Keynote speech by Professor Carlo Borzaga, President, Euricse – European Research Institute on Cooperative and Social Enterprises, University of Trento

Co-operative entrepreneurship and new humanism

Keynote speech by Professor Tapani Köppä

How shall we work? – Practical issues Adjunct Professor Hagen HenrÛ, Research Director, Ruralia Institute, University of Helsinki

*MUC Campus (address Lönrotinkatu 5–7)*

12.30 – 14.00 Lunch

14.00 – 18.00 Workshops (optional coffee breaks)

18.00 – 18.45 Walking tour through Mikkeli – local co-operatives (optional)

20.00 – 21.30 Reception hosted by the City of Mikkeli, City Office Building

(address: Maaherrankatu 9–11)

### **Friday 26th August**

*MUC Campus (address: Lönrotinkatu 5–7)*

9.00 – 12.30 Workshops (optional coffee breaks)

12.15 – 13.30 Lunch

*Mikaeli Congress Center (address: Sointukatu 1)*

13.30 – 14.30 Plenary session (interpretation into Finnish)

Chair: Adjunct Professor Hagen HenrÛ

Why ownership and control matter in a green economy?

Keynote speech by Reader Molly Scott Cato, Cardiff School of Management

Understanding co-operatives through research

Associate Professor Lou Hammond Ketilson, Director, Centre for the Study of Co-operatives, Edwards School of Business, University of Saskatchewan, Chairperson of the Committee on Co-operative Research, ICA

14.30 – 15.00 Coffee break

15.00 – 17.00 Plenary session continued (interpretation into Finnish)

Panel discussion

between practitioners and researchers based on short summaries by the track rapporteurs Chair: Professor Tapani Köppä and Adjunct Professor Hagen HenrÛ

17.00 – 17.30 Closing session (interpretation into Finnish)

Chair: Sami Karhu, Secretary of the Finnish Co-operative Council

Closing words

Dame Pauline Green, President, International Co-operative Alliance (ICA)

Tiina Linnainmaa, the Finnish Co-operative Council

ICA Research network and next conferences

Associate Professor Lou Hammond Ketilson

Words in honour for the long-time chair person of the ICA scientific committee, professor Yohanan Stryjan by professor Roger Spear

Farewell address by the Local Organizing Committee

Professor Pirjo Siiskonen

19.00 - 20.00 To Kyyhkylä Manor by boat and bus

*Kyyhkylä Manor*

20.00 - 23.00 Conference Dinner

23.00 Return to Mikkeli by bus

### **Saturday 27th August – EXCURSION**

8.00 – 12.00 Bustrip from Mikkeli to Tampere

12.00 – 13.15 Presentation of the school restaurant Thyme, Tampere

12.30 – 13.15 Lunch at Thyme restaurant

13.15 – 14.30 Bustrip to Nuutajärvi

(presentation of co-operatives in Pirkanmaa region during the trip)

14.30 - 15.00 Presentation of the Nuutajärvi Gallery co-operative NUGO

15.00 – 16.00 Coffee in Nuutajärvi and shopping (optional)

16.00 – 17.00 Bustrip back to Tampere

(presentation of the Culture Co-operative Uulu during the trip)

17.00 – 18.00 Visiting the ProAcademi Co-operative

18.00 – 20.00 Break

20.00 – 23.00 Reception hosted by the City of Tampere, the Old City Hall

(address: Keskustori 10)



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