CO-OPERATIVES UK

THINK PIECE 7

Practical tools

for defining co-operative and mutual enterprise

John Atherton, Johnston Birchall, Ed Mayo and Giles Simon

"In a democratic movement, it is right to test and debate how our core values and principles apply in practice."

Introduction

The purpose of this paper is to set out how Co-operatives UK defines co-operative and mutual enterprise.

Co-operatives UK is seen by our members as an authority on and a guardian of co-operative identity, in line with international practice. Here and abroad, there is a welcome diversity of forms of enterprise and ownership in our field and what works in practice may not be what seems right on paper and vice-versa. With this paper, which follows a draft released in 2011 for consultation, we aim to be transparent on how we make judgements on aspects of co-operative identity.

“There is a welcome diversity of forms of enterprise and ownership in our field and what works in practice may not be what seems right on paper and vice-versa.”

Being clear is not the same as being fixed in stone. In a democratic movement, it is right to test and debate how our core values and principles apply in practice. We welcome debate on these issues and we expect innovation so that co-operative practice can evolve over time.

We start with the framework of co-operative identity agreed through the International Co-operative Alliance. Drawing on this, we set out an explanation of two key dimensions of a co-operative enterprise. These are member-ownership and co-operative ethos.

The first (member ownership) is more straight-forward to assess when taking a birds eye view of the sector. For research and statistics, for example, we therefore include enterprises as co-operative where they have appropriate characteristics of being democratically member-owned – such as operating on the basis of one member, one vote. We use the concept of mutuality in a more open sense, which includes member ownership but without requiring democratic form.

The second (co-operative ethos) involves an understanding of the commitment of an enterprise to specific goods. It therefore relates to how a business behaves rather than how it is structured. As such, it is more complex to assess, but no less important for that.

The two dimensions suggest that, rather than co-operative identity being like a tap that is simply on or off, there may be a *scale of co-operation*. What counts as a co-operative or mutual enterprise on this scale is set out, as a working policy of Co-operatives UK, in Annex B.

Co-operative Identity

At an abstract level, the question of 'what is a co-operative?' could be viewed as having been settled once and for all by the co-operative principles and the co-operative identity statement proclaimed by the International Co-operative Alliance (ICA) in 1995. This is set out in Annex A.

These were endorsed by United Nations *Guidelines* in 2001 and by an International Labour Office *Recommendation (193)* in 2002, and have been written into many co-operative laws around the world. The eventual seven principles were the result of a highly participatory process that began in 1990 with Sven Ake Book's exhaustive consultative work and ended in 1995 at the Tokyo General Assembly with the formula accepted without amendment.

> "The ICA principles are a social construct, the outcome of a process of deliberation that took place among a particular set of people at a particular point in time."

The process of agreement shows that the ICA principles are a social construct, the outcome of a process of deliberation that took place among a particular set of people at a particular point in time. They cannot be set in stone and will probably be revised again or added to in the future.[1] Indeed, particular sectors, such as worker co-operatives, have added criteria, but on top of these fundamental building blocks.

At a practical level, though, whether revised in future or not, it is not straightforward to *apply* the principles and to do so in a consistent way. There is a diversity of co-operative forms. There is continuous experimentation around key issues, such as the nature of membership, interest in community benefit and new models of financing. You can register a co-operative using a variety of legal forms. And there is no shared and settled test of how to comply with aspects such as education and training or concern for community.

This paper explores the idea of a classification system for wider member-owned businesses and a 'quality scoring framework' for co-operatives, both to make a stronger connection between principle and practice and also to underpin claims we may want to make around key aspects of quality regarding what is or is not a co-operative.[2]

Why distinguish co-operatives?

Why do we want to define the qualities of a co-operative? The answer is to distinguish it from other enterprises, because without this, people miss the significance of ownership altogether and go straight to other kind of distinctions such as business sector or size of firm.

Any enterprise is a nexus of different stakeholders brought into productive relationships. Each stakeholder has an influence on and is influenced by the enterprise but ultimate control and benefit is vested in the stakeholders holding ownership. There are five good reasons for believing that ownership matters:

1. **Ownership brings benefits to one stakeholder rather than another.**
   If investors own a firm, they can appropriate the profits and benefit from increases in share values. Nobody else can do so. If, on the other hand, it is owned by the employees, or by customers, or by other firms that rely on it for their business, they take the profits (though they do not benefit from any uplift in share value, as usually shares are not traded).
2. **Ownership gives control over the business to one stakeholder rather than another.**
   There are always conflicts of interest between different stakeholders. They cannot all maximise their return from the business. If some interests were not excluded from ownership the business would lack direction and the costs of governance would be too high. More positively, ownership by stakeholders who rely on the business not just for profit but to meet basic needs enables the business to be 'people-centred' rather than money-centred.[3]

3. **There are always costs incurred in bringing one set of stakeholders or another into ownership.**
   Stakeholders who are left outside have to rely on contracts that carry transaction costs, while those on the inside have to bear the costs of governance. Member-ownership provides a different mix of costs that, under the right circumstances, makes a firm more competitive.[4]
4. **Different patterns of ownership can create different business incentives and outcomes.**
   There are strong incentives for businesses owned by investors to maximise financial returns to shareholders in terms of dividends and increases in share price. In enterprises owned by other stakeholders, there can be a decision not to pursue profit but to give priority to other aims; consumers may value the quality of the product, staff decent working conditions and producers the quality of inputs to their businesses or effective marketing of their products.
5. **The existence of diverse ownership structures has wider systemic effects.**
   It can be argued that markets that include owners other than just investors provide more choice to consumers, help prevent monopoly, provide room for innovation and generally keep investor-owned businesses competitive. The demutualisation of the building society sector in the UK, for example, was opposed by critics who warned of the dangers of an investor-dominated banking system.

Defining co-operatives as a distinct form of ownership and ethos

Where do co-operatives fit in, in the context of a wide variety of forms of business ownership?[5]

It is not the only alternative to investor-owned enterprise. Indeed it could be argued that companies owned by external shareholders are only a tiny proportion of the stack of businesses anyway. Small firms, micro-enterprise, so-called 'lifestyle' rather than 'growth' businesses are far more common.

Where the Co-operative Principles can help us is in distinguishing key aspects of co-operative identity, though we have to recognise that what emerges may be closer to a family resemblance, or spectrum of co-operative quality, rather than a narrow specification of uniformity. In this section, we explore the case for saying that there are two underlying aspects of quality for any independent enterprise to be classed as a co-operative – its ownership and its ethos.

The principles

The fourth principle (autonomy and independence) could come first in any analysis, as it is logically prior to any other principle. It establishes that what we are considering are separate business entities. Without this initial qualification, there is no basis for considering the qualities of an organisation because its identity is fundamentally fluid as it rests on decisions beyond its control. Many of the early co-operatives described themselves as 'societies', which echoes this idea of being self-governing – in contrast to models of being governmental, quasi-governmental or non governmental (NGOs).

The first three principles then carry more weight than the last three and it could be argued that they are more essential.[6] Arguably, next in order of importance comes democratic member control; this incorporates the principle of 'one member one vote' in primary co-operatives, which is fundamental to ensuring that these are people-centred rather than capital-centred businesses. Logically, member economic participation follows from this, since members who have an equal vote are likely to allocate surpluses in a fair way (usually by linking dividend to usage, but also by agreeing on other methods such as equal shares, or a community dividend). Voluntary and open membership establishes the basis for individual membership, ensuring that people have the opportunity to join and to leave of their own free will.

Together the qualifying test of autonomy and independence and the first three principles are fundamental in establishing the ownership structure of co-operatives as member-owned businesses. The others (education, training and information; co-operation between co-operatives; and concern for community) are more of an aspiration. It is possible to envisage a co-operative that does not meet our expectations in these respects but that can still be called a co-operative. As Sion Whellens from Calverts has commented, the first four principles are perhaps what make you a co-operative business, but the further three are what make you part of the co-operative movement.[7]

This suggests two possible dimensions of co-operative business quality – co-operative structure in terms of member-ownership and co-operative ethos. Both could be explored through a quality scoring framework, but the dimensions are different in terms of application, to the extent that member ownership is easier to test, at least in a baseline dry, factual account of organisational structure, whereas the co-operative ethos is a more normative yardstick, varying more across organisations and cultures.

We therefore start by examining co-operatives in their form as member-owned businesses.

First dimension: member ownership

Johnston Birchall has argued that there are benefits in a model of classification that sets out market sector (genus), form of member-owned business (species) and variants (hybrids).[8] This is rooted in the idea that, apart from the investors of capital, there are three main stakeholders in a business: its consumers, the enterprises who supply inputs to or take the outputs from the business, and its employees.

In a member-owned business, usually one of these other stakeholders is put at the centre of the business. This gives us three classes: consumer owned, enterprise owned, worker owned or a combination of these.

> "Together stakeholders can channel the value added from the business to themselves rather than to investor-owners or to 'middlemen'."

The advantages to stakeholders of co-operating are obvious; together they can channel the value added from the business to themselves rather than to investor-owners or to 'middlemen'. The benefits come in many forms, depending on what members are coming together for.

There may be economic benefits, although usually not simply financial – indeed there may be limits on the returns to financial capital invested by members. Or the benefits may be social and cultural, including perhaps solidarity for others. For example:

- Consumer owned businesses provide people with consumption goods at the lowest possible price and with a guarantee of good value, and so make their income go further.
- Enterprise owned businesses enable self-employed people and businesses to gain the strength in numbers they need to survive in the market.
- Worker owned businesses provide people with an income, but also are a way of gaining control over the conditions under which they labour, providing what the International Labour Organisation calls 'decent work'.

Any approach to classification may simplify what can inevitably be complex at the level of individual enterprises and there will be inevitable qualifications.[9] But it is a significant advance on other classifications in use. Traditionally, in different countries a classification of co-operatives has grown up that reflects the particular history of co-operatives in that country, so that an ad hoc list will be created that then forms the basis for published statistics. In Sri Lanka the list includes coconut and school co-operatives, while in Vietnam it includes handicraft and tourism co-operatives. [10]

A member-owned business, therefore, is "*a business organisation that is owned and controlled by members who are drawn from one (or more) of three types of stakeholder – consumers, enterprises and workers - and whose benefits go mainly to these members*."

Not all member-owned businesses adhere to the co-operative principles around structure, however. Accounting firms, for example, now tend to be limited liability partnerships (until recently member liability was in fact unlimited), but they are not partnerships of equals, in terms for example of democratic member control. And, there are important judgements to make at the boundary, not least in relation to the capital structure as to whether a member-owned business is genuinely member-controlled.

Mutuals are member-owned businesses, but it is a wider and looser category. Co-operatives are mutual enterprises, but the reverse may not be true. Some mutuals may come in forms that do not necessarily align with international principles of co-operative ownership or ethos. They may, for example, have different models of representation of members in governance, rather than operate on the basis of one member, one vote.

To add to the complexity, all this may be in flux. What starts as one form of enterprise can change. Some co-operatives begin as 100% member owned, and then diversify, offering shares to investor-owners.[11] This applies mainly to farmer co-ops[12], but also, internationally, to some others needing large investments, such as telecoms and insurance co-operatives. Here, while member ownership is obscured it still exists in a pure form behind the business. Sometimes investors are brought into direct ownership, and here the business can still be seen as member-owned if members retain more than 50% of the equity. However, there are doubts as to whether in practice members can exert enough influence to be said to be still in control. It is harder to apply, but it may be a better if more subjective interpretation to ask not just that members have majority ownership, but that they retain control.[13]

Table 1 – Co-operative and Mutual Ownership

Primary class	Common name	
Consumer owned	Consumer Co-operative	Where the members and beneficiaries are the customers of the co-operative.
	Consumer Retail Society	Focused on traditional co-operative retail: food, pharmacy, funeral care and travel.
	Collective purchasing Co-operatives	Individuals who come together usually for bulk buying food or utilities.
	Credit Union	Co-operatives registered under the Credit Union Act.
	Housing Co-operative	Where members and beneficiaries are tenants or co-owners of the co-operative.
	Consumer Mutual	Member-owned but may not adhere to all co-operative principles.
	Building Society	A specific type of mutual registered under the Building Society Act
	Mutual Insurer	A specific type of mutual in the insurance sector.

Primary class	Common name	
Worker owned	Worker Co-operative	Where the members and beneficiaries work for the co-operative and have direct ownership and control.
	Employee Trust Co-operative	Where the members and beneficiaries work for the co-operative but ownership is through Trusts, Employee Share Ownership Plans or other arrangements.
	Employee Mutual	Employee owned but may not adhere to all co-operative principles.
Enterprise owned	Consortium Co-operative	Where the members and beneficiaries are businesses who share services (Buying, Marketing, Machinery)
	Agricultural Co-operative	Specifically in the Agricultural Sector
	Market Trader Co-operative	Specifically for farmer, country and other market traders.
	Artisan Co-operative	Where the members and beneficiaries are self-employed and collectively share services.
	Secondary Co-operative	A consortium co-operative where all the members are co-operatives.
	Consortium Mutual	Member-owned but may not adhere to all co-operative principles.
Mixed ownership	Community Co-operative	Where members are a specific community of interest and the co-operatives benefit is to that wider community.
	Supporter Co-operative	Specifically in the Sports sector
	Multi-stakeholder Co-operative	Organisations with any mix of the above (where less than 75% is in one class.)
	Multi-stakeholder Mutual	Member-owned but may not adhere to all co-operative principles.

Second dimension: co-operative ethos

It is notoriously hard to define and distinguish a culture or ethos across different organisations. It is worth starting, therefore, with the words and names that are used.

Member owned businesses come with different labels attached and often with a different associated ethos as a result. The most common are co-operatives, mutuals and economic associations. These terms are almost synonymous but not quite. Co-operatives trace their origins to the 'Rochdale Pioneers' in 1844 and tend to have a shared identity. Mutuals do not have such a strong social identity; their history is much more mixed and less obviously heroic, and they have definitely never been part of one coherent movement or signed up to an equivalent of the sixth principle of co-operation.[14]

> "There are also subtle differences in ethos between businesses that identify themselves as a co-operative and as a mutual."

The other term, economic association, is the broadest, carrying no ideological 'baggage' or set of universal rules by which it is distinguished from other types. It is often applied, for example, to farmer associations, and is useful in distinguishing member-owned businesses that do not conform to co-operative principles.

Looking internationally, there are also subtle differences in ethos between businesses that identify themselves as a co-operative and as a mutual – in particular that the term mutual is usually applied to financial member-owned businesses. Their purpose is to raise funds from their customers in order to provide them with services such as savings and loans, various types of assurance, health insurance, pensions, housing mortgages and so on. They do this through recycling money within a closed system that does not include – or need – outside investors.

It doesn't help that other enterprises use the term 'mutual' in a misleading way.[15] Savings banks often see their customers as 'members' but do not allow them a formal share in governance; they are governed by, in formal terms, a self-perpetuating board of trustees and so are more like charities. In the USA they are called mutual savings banks. But they are only mutual in one sense, that there is no separate set of investors to take the profits. In the UK, some commentators define housing associations as being mutual, although it is hard to argue that social housing tenants have any membership rights, let alone the kind of ownership stake that housing co-operatives offer.

Even so, on a test of co-operative forms of member ownership, a number of financial mutuals, such as building societies, could well be considered as co-operatives, even if it is not the label they use. ICMIF, the federation that represents financial co-operatives and mutuals, has a close working relationship with the ICA and many members have a close affinity with the co-operative ethos.

Once the term 'mutual' is used beyond the financial sector, it therefore tends to imply a relationship with people who are members, but without clarity on what such membership entails. It becomes inclusive, but also therefore, like 'social enterprise', more ambiguous as a term.[16] It may be helpful therefore to suggest that member-owned businesses may be mutual in structure and this wider envelope can include co-operatives, but there remain distinctive elements to many co-operatives in terms of their ethos which are helpful to characterise.

The two dimensions, taken together, represent the full quality of co-operative identity. However, in terms of application when looking across a range of businesses, the first dimension of member ownership is more straightforward to use as an initial way of selecting out co-operative forms of ownership. The second dimension, of ethos, can be tested in a live and dynamic way by the members of a business or by looking at aspects of its behaviours; the Co-operative Performance Committee of Co-operatives UK, for example, publishes a series of financial and non-financial performance indicators, some of which touch on culture and performance in relation to the co-operative principles.

Internationally, there are a number of other promising toolkits which set metrics for assessing the alignment of an enterprise with the statement of co-operative identity, or supplementary codes such as the Worker Co-operative Code of Governance.

Conclusion

Drawing on the analysis above, we can therefore draw the following three conclusions.

- Co-operative and mutual enterprises are businesses owned by and run for their members.
- There is a wide variety of different models of member ownership, but typically the members will be consumers, workers or enterprises or some mix of these three groups.
- Co-operatives are mutual enterprises that combine co-operative ownership with a co-operative ethos.

Annex A

Statement on the Co-operative Identity

Definition

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.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership

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.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Annex B

Co-operatives UK Policy on Co-operative and Mutual Identity

The internationally agreed co-operative principles are the foundation for our policy on co-operative identity. Set out below are some practical positions to clarify issues in the UK context and the lack of legal definition for a co-operative (or mutual).

This policy accepts the evolving nature of co-operatives and how they take advantage of changes in the environment. Co-operatives UK therefore may from time to time update this policy and supporting documentation.

This policy and supporting documentation are the basis for describing and classifying co-operatives (and mutuals) for the purposes of membership. The Society Secretary of Co-operatives UK reserves the right on a case by case basis to make exceptions to the agreed policy. Any organisations can appeal a classification decision by Co-operatives UK by sending further written evidence to the Society Secretary.

All Co-operatives UK's representatives are encouraged to raise awareness, discuss and help educate others about co-operatives; but should always be mindful and refer to Co-operatives UK's positions; keeping abreast of any amendments made to this policy or supporting documentation.

Positions

Co-operatives UK reaffirms its commitment to be the UK guardian of the ICA internationally agreed co-operative Values and Principles (V&Ps). These V&Ps should always be used as a basis for identification.

Mutuals are organisations majority owned and controlled by their members on a fair and equitable basis. Co-operatives are part of this family of businesses alongside building societies, mutual insurers, and employee owned businesses. What distinguishes co-operatives is their adherence to a set of internationally agreed V&Ps.

Co-operatives UK has an agreed set of definitions for communications purposes which should be used to ensure our messages are consistent and reflect our policy.

In the UK co-operatives and mutuals are not legally defined; therefore an organisation with any legal form that can satisfactorily evidence[17] either adherence to the values and principles in the case of a co-operative or satisfies our definition in the case of a mutual can and should be identified as such.

Co-operatives UK will primarily base its decision to identify and classify co-operative and other mutuals using their governing documents. If this evidence is unclear further evidence can be sort from: secondary rules, governing body minutes, policies and procedures.

The traditional co-operative definition of a member (within a co-operative) is a person or organisation that trades with or benefits from the activity of the organisation usually as: consumers, workers, service users, members of a community (geographical or interest). People and organisations that are members purely to invest and gain return on that investment can only ever have a minority stake, up to 25% of the membership.

Voting at general meetings in co-operatives should be on a one member one vote basis and in the case of secondary co-operatives based on throughput via the co-operative.

Co-operatives UK for statistics and membership purposes classifies co-operatives and mutuals using the table on pages 13 and 14 of this publication. The primary class and "common name" assigned to an organisation should reflect at least 75% of the membership; otherwise the organisation should be classed as mixed membership. The "common name" list may be amended based on changes in the co-operative sector.

Annex C

Practical self-test tool: the scale of co-operation

To address both dimensions of member ownership and ethos, we have developed a set of core questions relating to both dimensions. This is a 'ready reckoner' tool, designed for communication. It is not a substitute for a full and proper definition of a business drawing on an examination of their core documents.[17]

This test is intended to apply only to independent and autonomous enterprises, that are not beholden to any other body, whether government or another business. The questions offer a draft scoring framework designed to be a self-test or external exercise to plot different organisations in terms of where they emerge on both these dimensions of co-operative identity.

Answer yes or no to the following questions to find out where your organisation is on the scale of co-operation.

Member ownership

Membership

Do you have members?

Y = 1, N = 0

Is membership of your organisation open to anybody who is eligible, able and willing?

Y = 1, N = 0

Ownership

Do your members own the organisation or have, in formal terms, ultimate control over what it does?

Y = 1, N = 0

Do all members have an equal say in the major decisions of the organisation? For example, if you are electing a Board, is it one member, one vote rather than the number of votes being down to how much money you have put in?

Y = 1, N = 0

Control and Benefit

Do your members directly engage in or benefit from the activity of the organisation?

Y = 1, N = 0

Do your members decide what to do with the profits of your organisation?

Y = 1, N = 0

Co-operative Ethos

Learning

Does your organisation set aside time and money to allow its members and/or employees to develop their skills through training and education, so they can effectively contribute towards the running of the co-operative?

Y = 1, N = 0

Do you contribute to wider public education or awareness around the benefits of co-operation?

Y = 1, N = 0

Collaboration

Does your organisation collaborate or trade with other co-operatives?

Y = 1, N = 0

Are you a member of a wider co-operative network that is recognised or affiliated to Co-operatives UK or the International Co-operative Alliance?

Y = 1, N = 0

Community

Does your organisation benefit society – for example by providing a community-centred service or using a proportion of its profits to support communities?

Y = 1, N = 0

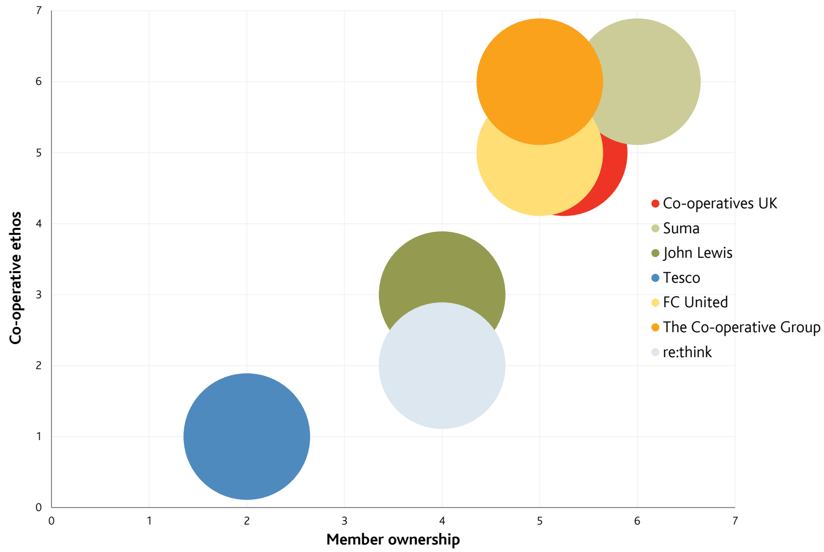
Does your business consider and try to improve its impact in terms of sustainable development?

Y = 1, N = 0

Figure 1

Illustrative Scoring

Figure 1 offers a possible application of the scale to a number of co-operative and non-co-operative enterprises. The examples and scores given are for illustration only and should not be taken as a statement of fact.



On this chart, the top left and top right hand quadrant includes member-owned businesses with the structure of co-operatives. The top right-hand includes enterprises that are member-owned with a co-operative structure and ethos.

Notes

1 For example, at the General Assembly, the principle of employee participation was strongly advocated but was voted down. Concern for the environment could have been one of the principles and may well be added in the future. At the moment, there are strong lobbies within the ICA membership for employee participation and environmental sustainability to be added. Also, there is nothing to stop co-operative sectors from adding in new principles; the Mondragon co-operatives sign up to 'sovereignty of labour', the 'subordinate nature of capital' and 'payment solidarity' and they replace 'member economic participation' with 'participatory management'.

2 In addition, the use of the term 'co-operative' is not adequately protected in the UK and is therefore always open to potential abuse. That risk may be higher in the context of public service spin-offs, for example. In reality, other organisations may take on aspects of democratic business life, without fulfilling the quality threshold to make them a true co-operative and to have ways of making these distinctions should be helpful.

3 There are some reservations though. In modern business organisations managers have a lot of power regardless of the ownership form the organisation takes; it can be argued that a 'managerial revolution' has taken place that makes ownership less relevant. In consequence, ensuring effective governance is a problem for all types of business except those owned by individual owner-managers. Conversely, Tusha Shah's work in India demonstrates that co-operatives thrive when the interests of members are aligned with those of elected boards and managers. When membership is neglected, even in a supportive political and legal environment, co-operatives fail.

4 For instance, mutual life insurers have an inherent advantage over investor-owned equivalents, as they do not have to decide how to allocate profits between with-profits policyholders and investors. Clearly, other things being equal, policyholders will gain from controlling the business as members. Related to this is the cost of regulation. In potentially monopolistic industries such as supply of utilities, and in sectors that rely on long-term contracts such as provision of pensions, investor-ownership needs heavy regulation by governments to safeguard the interests of customers. Mutual water companies and electricity co-operatives align the interests of customers more closely with the aims of the business.

5 For more on forms of business ownership, see Mayo, E. (2012), *Global Business Ownership 2012: members and shareholders across the world*. It is worth noting that there are examples of co-operative models that have emerged, such as state-funded co-operative schools in England that fall short of being a business, or rather would not choose to identify themselves as enterprises engaged in trade. We use the term business in an inclusive sense in this report.

6 American farmer co-operatives, for example, refer to a simpler set of three principles first identified by the Co-operative Department of the US Dept of Agriculture: member ownership, control and benefit. Some people think this must be a sign that they are not 'as co-operative' as others, but this would be a mistake; there is still a strong commitment to membership among most US farmer co-operatives.

7 It is inevitable that in the case of the last three principles and of the wider co-operative and ethical values, these may be adapted or altered in very different ways across different cultures. In Denmark, for example, co-operative windfarms operate with widely differing statements of values rather than those endorsed by the ICA. There could be a case, in future consideration, for suggesting that the baseline should be somewhat simpler - that there is a set of values or related principles agreed by members and a commitment alongside this to co-operate with others in relation to those values and principles.

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

9 There are five qualifications:

1. Though most member owned businesses are 'single-stakeholder' in nature, the people who join them can have more than one identity, being at the same time producers as well as consumers, or employees as well as customers. Farmers are both producers and individually consumers, and so agricultural supply co-operatives often provide them with consumer goods as well as farm inputs. Some of the people who need banking services have their own businesses, and so have both business and personal accounts. The employees of consumer co-operatives are also customers, and so are allowed to become members (though there are rules that prevent them from being in a majority on the board).

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

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

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

5. The member-owned business approach is cautionary about the idea of community ownership. It assumes that individual people or businesses become members in order to meet specific needs, and does not have anything to say about communal ownership. However, the needs that individuals have as members may reflect a wider, altruistic motivation. Or those individual needs may reflect or integrate benefits that are perceived as shared – as where membership is tied to a particular geographical area; co-operatives often do this as part of their business strategy (or as in Japanese consumer co-operatives, because they are constrained by law from operating in more than one area). In this sense the term 'community co-operative' is perfectly acceptable; it is a consumer or multi-stakeholder co-operative based in one locality.

10 Such listings are potentially endless, and their classifications say nothing about the underlying ownership structure. Often co-operatives are grouped into broader types such as industrial or producer co-operatives, but these types can obscure the difference between, for instance, shared service co-operatives for self-employed people and employee-owned co-operatives. Sometimes the confusion goes all the way up to the international level; the International Organisation of Industrial, Artisanal and Service Producers' Co-operatives is, as the name suggests, an accretion of co-operatives who have in common only that they produce things or provide services. By separating out different stakeholders we can at least see whose interests the co-operative is supposed to be promoting.

11 Others begin as a member-owned association whose purpose is to buy into an existing business so as to exert control by a particular group of stakeholders. Wind farm co-operatives in Scotland are one example, as is the football trusts that are buying shares in British football clubs. We might call them consumer investment co-operatives. Another form is the employee share-ownership trust that is buying into a business on behalf of employees; this could potentially be thought as equivalent to an employee investment co-operative.

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

13 The same argument can be used to clarify the status of employee share ownership schemes. If employees own more than 50% of the shares, then the business can be said to be employee-owned and hence a co-operative.

14 Some types of mutual, however, do have a distinguished history and a social movement ethos. British friendly societies were such a movement until sidelined by the state in social insurance after the Second World War. In France the term 'mutuality' carries a much stronger meaning than elsewhere, and is more like that of a co-operative.

15 Some demutualised businesses still carry the word 'mutual' in their name even though they are investor-owned and have no right to.

16 Some social enterprises are co-operatives, and if they are serious about involving their beneficiaries or employees then more of them ought to be co-operatives. They would then be part of a much larger member-owned business category. The same can be said in developing countries of Non-Government Organisations (NGO). Some of these are co-operatives, but most are set up as trusts with a governance structure that is lacking in accountability. Sometimes a non-co-operative NGO is competing with a co-operative for the same business (e.g. Sarvodaya Movement with SANASA in Sri Lanka). This can point up the difference between them, and also enables co-operatives to demonstrate their comparative advantages.

17 These include some combination of:

- **governing documents** - including partnerships (deed), associations (constitution), company (articles), limited liability partnership (partnership agreement), Society (rules)
- **secondary rules** – including standing orders, terms of reference and other agreements set down by the organisation, policies and procedures and minutes (where decision / policies have been agreed).

Co-operatives UK

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

Any organisation supportive of co-operation and mutuality can join and there are many opportunities online for individuals to connect to the latest co-operative news, innovations and campaigns. All members benefit from specialist services and the chance to network with other co-operatives.

www.uk.coop

Printed during the United Nations International Year of Co-operatives 2012: a unique opportunity to open the lid on one of the world's best kept secrets. Co-operatives are more than successful businesses - they are a global movement that is building a better world by giving everyday people an equal say and their share of the profits. The International Year of Co-operatives is a chance to find out more.

2012 International Year of Co-operatives

Co-operatives UK's International Year campaign is generously supported The Co-operative Group, The Midcounties Co-operative, Midlands Co-operative Society, Scotmid Co-operative, The Southern Co-operative, Anglia Regional Co-operative Society, East of England Co-operative Society, Benenden Healthcare, Lincolnshire Co-operative, Chelmsford Star Co-operative Society, Heart of England Co-operative, Channel Islands Co-operative Society, HF Holidays and CDS Co-operatives.

www.uk.coop/2012

Co-operatives UK is seen by our members as an authority on and a guardian of co-operative identity. With *Practical tools for defining co-operative and mutual enterprise*, which follows a draft released in 2011 for consultation, we aim to be transparent on how we make judgements on aspects of co-operative identity.

CO-OPERATIVES UK
Co-operatives UK Limited
Holyoake House
Hanover Street
Manchester M60 0AS
Tel: 0161 246 2900
www.uk.coop

Published 2012

Scan to download, or visit
www.uk.coop/node/12489